



“VIP Industries Q2 FY21 Earnings Conference Call hosted by  
Edelweiss Securities Limited”

**November 09, 2020**



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**Moderator:** Ladies and Gentlemen, Good day and welcome to VIP Industries Q2 FY21 Earnings 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 for 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, ma’am.

**Shradha Sheth:** Thank you Aman. On behalf of Edelweiss let me welcome you all to the Q2 FY21 Earnings Call of VIP Industries. From the management today, we have Mr. Dilip Piramal the Chairman, Ms. Radhika Piramal the Executive Vice chairman, Mr. Sudip Ghose the Managing Director and Ms. Neetu Kashiramka the CFO. 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 sir.

**Dilip Piramal:** Good afternoon everyone. Thanks for taking out time and joining our conference call. I would like to reiterate to all our esteem analyst, participants that our company is amongst the worst affected sector being part of the travel industry and our operations have been severely impacted due to this pandemic. Beginning of Quarter 3 is showing good pickup as we enter the festive season hopefully demand should revive in remaining part of the year due to the festive season and some pent-up demand on account of marriages, school re-opening and a little bit of the travel industry also is gaining some revival in the domestic sector, international travel is still not opened and will take time to come back.

During the second quarter, Quarter 2 FY21 income from operations was at 108 crores against 415 crores in the corresponding quarter of the previous year. Loss for this period was 33 crores as against 33 crores of profit last year. However, if we look at sequential quarter-on-quarter revenue from operations which was only 7% of pre-COVID levels in Quarter 1 FY21 was at 25% in Quarter 2 FY21. So from 7% of pre-COVID levels we did 25% of pre-COVID levels in the second quarter.

As mentioned earlier also during Quarter 1 focus of our company was on cost control and cost rationalization, fixed cost which used be 40 crores per month at a consolidated level last year will be 24 crores per month in this year. Let me also brief you about our liquidity situation to take care of this tough times. We had plans to borrow around 300 crores to have a war chest for these tough times. Current borrowings stands at 204 crores however net debt is NIL which means we have borrowed, but not utilized these amount. We have actually drawn these amount and invested them so that it should not happen we are worried that if in bad times banks have given us the limits, but they might cancel it later on.

So to play safe we borrowed these money withdrew it and invested it and then later on our CFO Neetu will give you details about these.



Update on the VIP Bangladesh operations.

These operations started only with producing masks we have these sewing machines and it is a tailoring operation of soft luggage in Bangladesh we started producing masks and we are selling now about 2-3 crores of masks per month so that is quite good we feel it cover our overhead in Bangladesh for about 1 crores and there is a good margin on the sale in India. Luggage manufacturing will start only in this third quarter we already started in October in a very small manner making luggage and they will grow up gradually because we still are quite well stock up because as we might remember that April to June is a largest quarter and virtually we have what we are planning to do in the April to June quarter originally I do not think we will do that 150 crores in the entire year of this year and income from operations from VIP Bangladesh in the second quarter was 18.2 crores and profit after tax was negative of 2.4 crores as compared to 10 crores loss during the first quarter.

With that, I hand over the call for questions.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

**Shanti Patel:** My simple question is how much time it will take approximately to go back our original level that is the normal sale and profit etcetera?

**Dilip Piramal:** This time I am proposing that our MD answers most of the questions so Sudip please, but I will direct for each question who should answer it Sudip kindly take over.

**Sudip Ghose:** It is a very difficult question to answer if you ask me as Chairman said that we are definitely better off from the last quarter to this quarter, but pre-COVID levels I think will take at least year and half to reach there if you do well. It also depends on how Quarter 3, Quarter 4 turns out and so definitely COVID has taken this industry back by between 2 to 3 years depending upon how the organizations fire in the coming tough time.

**Shanti Patel:** The approximate figure I am talking about it will take one to one and half years since everything is moving in the way we are moving.

**Sudip Ghose:** Top line yes but also what has happened in COVID is we have become far liner and we have ensured that all the slag is gone. So possibility wise we will probably come back faster, but top line level it will take anything between two to three years.

**Dilip Piramal:** See I also want to say that as a company what we are planning now is we will try and get some more international business. So far, our internal business is predicated basically on our Bangladesh operations and what we sell from Bangladesh to India is much more profitable than what we can sell from Bangladesh to abroad. So till now all our Bangladesh operations



were only for India and in fact we are not even meeting 50% of our requirements from Bangladesh. Now that the markets have gone down we will try and see that we get more operations, we get more sales from abroad which are not very much at the moment, but we have to build that market, but because of our Bangladesh operation we feel we can do that. It might take up a year or so overall our volumes will go up. So we are not totally depending on Indian operations and then it is very easy for us to expand our Bangladesh operations. So prior to pre-COVID we had great plans to increase our Bangladesh operations even for the domestic market because even the domestic market as I said we are not even producing 50% of our requirement and the domestic market was growing. So now I am looking forward to trying that within a year we can start expanding our Bangladesh operations also for the international market. So at the company we will have much higher growth we can hope for higher growth than just depending on the domestic market.

**Moderator:** Thank you. The next question is from the line of Dev Shah from AMA Growth Advisors. Please go ahead.

**Dev Shah:** Wanted to know specifically around VIPs online strategy you know following and seeing that there are several new age E-commerce brands have come up was selling direct to consumer, so what is VIP direct to consumers strategy and what is it reliance on third party E-commerce moving forward?

**Sudip Ghose:** So one good thing that has happened is the COVID has taught all of us that E-com is going to become big and in fact E-com growth overall if you see has been 40% I have to give you an understanding our in sole mix of E-com with our sales was about anything between 7% to 10% currently we are at 27%. We have started growing in absolute terms in E-com from September onwards and we feel that E-com is definitely going to be one of our main channel which will stay and we are fully prepared for it, it is a new industry, but we have learned very fast, we have also taken some senior people from the industry to join our team and that has really helped and therefore we are very confident that this is one channel where we will ride this year and the years to come. So in average if you see my understanding is our mix from E-com going forward would be anything between 20% to 25%.

**Dev Shah:** Mr. Sudip my question was more around whether you are going to be relying more on your Amazon and Flipkart for your E-commerce strategy or are you going to be building out your own direct consumer brand from your website?

**Sudip Ghose:** See it is like imagine Amazon and Flipkart being the departmental stores and our own store being the exclusive stores. It has to be both you cannot replace one to another because consumers are going to go both. To start with definitely if there is a departmental store which is selling luggage we would like to go in there and we will build our own capabilities also in due course.



**Dilip Piramal:** See I would like to just share something that E-commerce is also like one more channel of trade so as Sudip said that it is like it is a retail channel like earlier on we have only these high street stores now you have our own retail shops then we have department stores hypermarket. So E-commerce is one more channel of trade and we also can have that our own channels and there are various brands which come in the E-com like sometimes people gets confused also that E-com and in the brand has all the values because if you are selling a branded product in E-com or let us say on Amazon and a non-branded product on Amazon you are not going to get the same price. So the brand always have the value.

**Dev Shah:** And how is it going to impact your margins moving forward because if you are saying that is going to be a dominant source of your revenue then what is going to be margin impact because you are going to replying?

**Dilip Piramal:** See that is the biggest challenge in E-com because the margins definitely are lower, but then your costs also are lower, but what happens is how the challenge is, how do you manage the rest of the trade it was where the cost are higher and we cannot offer the same price so that is a challenge. Sudip would you like to add anything.

**Sudip Ghose:** Yeah and what we will also look is understand is we are going to make for E-com so currently when you make from E-com you make products which are selling cheap does not mean that you lose gross margins I keep saying this I have said this earlier in many of the call. Selling cheap is to make products which are low cost products and yet get a percentage gross margin that you desire. So now that we are planning to sell for E-com we will produce for E-com and therefore the gross margins will get protected. In the current scenario if I have to tell you that because we have stocks and we are liquidating we would have very temporary impact on the gross margins, but that we will make it up as we reduced stocks and start making product for E-com.

**Moderator:** Thank you. The next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

**Jinesh Joshi:** I just have one question sir we have a debt of approximately 200 crores and you highlighted that we have plans to borrow 300 crores I just want to know whether we will really kind of require additional 100 crores because we also have some 50 crores coming in from the insurance claim this year, so will the additional money be really required in terms of debt?

**Neetu Kashiramka:** Chairman said that we had plans, but as of now we do not intend to draw so these are limits which we have kept ready, but we do not intend to borrow anything further immediately.

**Dilip Piramal:** Let me tell you that when we in March it was sort of panic sort of situation because let us say in April and we did not know what is happening sales has absolutely stopped there was lockdown so we wanted to play safe. Our experience so far is these 6, 7 months have been much better than what we though like our receipts have been slightly more than our payments



and we are still in a net debt free position. So we are quite happy about that we were prepared for more difficult situation. So far we are doing quite well on cash flow management. It was very difficult to see how things will go out this six months in April. So we had to take some precautionary measures what has also happened that there is lot of liquidity with the banks at that time we thought that may be by December if things are bad bank might give us limit but may cancel it also at the last moment. So we drew these limits also so 200 crores we borrowed and invested. Today Neetu our investments are more by about 30 crores then I will borrow it.

- Neetu Kashiramka:** As on October yes.
- Dilip G Piramal:** Actually 30 crores surplus we have so you know this is the overall situation.
- Jinesh Joshi:** One last follow up sir this top line of 100 crores odd that we have achieved in this quarter is there average selling price materially different then pre-COVID because we have also offered some discounts if I have not mistaken?
- Sudip Ghose:** Yes absolutely. See with all companies having a very high stocks across all categories I must say there is a plethora of discount which is there because everybody is trying to liquidate the stock that they had build up remember we were getting into the most highest season like Chairman said this April, May, June and therefore we are carrying a quite a bit of stock which we need to liquidate as fast as we can. So yes there is a drop in ASP.
- Jinesh Joshi:** Possible to share the extent of discount?
- Sudip Ghose:** No I do not think it is a very dynamic one.
- Dilip G Piramal:** Yeah it varies from sector-to-sector, product-to-product.
- Sudip Ghose:** Sometimes somebody act so we have to also react for market share protection so it is very difficult to say that.
- Dilip G Piramal:** Even till now you have an overall sale have been 140 crores in the six months so it is not a very large figure the overall sales also is not very large.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sir first question pertains to in the opening remark you spoke about permanent reset on the cost last quarter you had given a detailed on what initiative you are taking on that account, so any incremental steps that you can share that we would have taken this quarter as well on the permanent reset on cost?



**Sudip Ghose:** So major cost initiatives have happened on the manpower, fixed EBO operations those have been action where action in Quarter 1 there impact is actually being seen in Quarter 2 we are also trying to find out any more inefficiency which is there in our organization in terms of operations and we are taking adequate steps to it. There are one or two of them which I would not like to discuss currently, but we are working on it maybe in Quarter 3 we might be able to discuss. I mean whatever we have taken whatever we said we will do we have actually done and those are flowing actually.

**Tejas Shah:** Second question Mr. Ghose pertains to your observation that it might take 18 months or two to three years for us to bounce back or go back to the earlier levels, but if I see some of the allied industries commentary like hotels, airlines they are much more hopeful of a sharper recovery if COVID is not around next year, so any reason why we are expecting slightly longer or for full recovery versus the allied industry part or is it just a rough estimate?

**Dilip G Piramal:** Let me answer this I do not know which airline industry you are talking airline is very badly affected.

**Tejas Shah:** Sir allied industry I meant hotels and other?

**Dilip G Piramal:** These airline and hotels are the two major industry with the travel business and in fact for a board meeting we presented them the accounts of if we go East India hotel that is Oberoi hotels and the Taj group of hotels and they are in a worst situation than us. Revenues are similar to us proportionally, but because their cost overhead cost structures are slightly higher than us hotel industry has very little variable cost, we have a lot of variable cost in all that. So their overheads are the main expenses we cannot do anything about the hotel cost and all it is a bit cost of the building and all that. In fact I was seeing one program on travel on CNN and they were interviewing airbus and going separately and airbus said that they are going to take five years to come back to the levels because what happens in any industry the capital investment goes down. So if the airlines take about three, four years to come even two years to come back to the old capacity utilization we are not going to buy new aircraft. So I do not think airline industry is going to get or hotel industry is going to get normal in one year because domestic travel is starting, but international travel is not starting.

**Radhika Piramal:** I would like to add one perspective here it is early to say in India there have been we have seen that the UK, Europe and North America is having a different sort of recovery than let us say China and South East Asian countries. At this stage is India just I will say meaningfully coming out of lockdown I would say September onwards. It is too early for us to judge in mid November. Will India follows a Asia model or the Western model and we can be hopeful it will follow the Asia model than the recovery can happen faster, but if it follows the western model where there is repeated lockdown than it can be slower and it is very difficult to judge sitting here today which of these things will work out.



**Dilip Piramal:** Why I am little bit more optimistic about VIP Industries only my company is because we are in a unique position where we can get some market share from international market. It is not possible for example for Samsonite because they already very large in international market they are the only multinational. Similarly, I do not think it is possible for any of the other Indian companies which are very small in any case and they do not have manufacturing operations in Bangladesh or in a low cost center and similarly all these things are not applicable let us say for a airline industry because all these today or a hotel industry they are not going to in two, three years get any market share abroad they have to set up hotels and buy hotels. So this sort of unique situation is there only for us and that can make a big difference for our company.

**Tejas Shah:** Last quarter we spoke about to diversify single category risk we might enter into few more categories to leverage the brand and distribution that we have, so any update and any plan of ruling out those initiatives in this fiscal or we will wait for FY22 to rule out?

**Dilip Piramal:** Yeah I will tell you we have already started making masks and we have reached a level of about 3 crores a month and that is giving us net contribution that is reducing our losses by about nearly 50% on 3 crores we save about 1.5 crores or even slightly more because we are manufacturing the masks in Bangladesh so our fixed overheads of workers and all that which otherwise we would had to pay that is getting covered so that is helping us by about 18 crores a year if this business sustains and I think for some time it will remain. We have one or two one other item category, but now we are not in a rush to do it because we do not feel that this was the right time to enter a much bigger business. The masks was okay we did not have to make any investments at all in manufacturing and it was giving us good revenue and there is instant demand. In some other sector we thought that we have to make investments so it is a totally new business so we are not in a rush to do that and today even a management bandwidth is not so strong that we can start a new business I mean there are better opportunities I would rather focus more on ladies handbag business and so far we are buying all these handbags from China. So it is much better for us to make these in Bangladesh so rather than getting into other new businesses we thought we can concentrate in Bangladesh we are not having the bandwidth earlier pre-COVID period because in Bangladesh we were very busy in expanding our activities for the Indian market luggage production and we thought we will do the handbags a little bit later on, but now that things are more difficult and there is not so much demand we have to work a little bit harder and start manufacturing handbags in Bangladesh so that will also give a good boost to the handbags market.

**Tejas Shah:** Any update on insurance claim release?

**Neetu Kashiramka:** Things are moving ahead, but I think it might take another three to four months to get a clear picture, but yeah things look positive now as we move along.

**Dilip Piramal:** COVID is a genuine reason I mean everybody has slowed down.



- Neetu Kashiramka:** Lot of people were not working, but now things have started to move ahead by next quarter we should be able to give you concrete answer on this as to when do we get it.
- Moderator:** Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.
- Nisarg Vakharia:** I heard a statement that we have cut a lot of flab in the organization and a lot of organization has done the same in COVID, my question was can you quantify the absolute amount of cost saving that we have done or if you could answer in a way that in a hypothetical scenario if we go back to 1,700, 1,800 crores top lines previously we were at about 14% EBITDA margin pre IndAS, so the margins would look higher by how many business points?
- Dilip Piramal:** Margins are not going to be higher margins are going to be lower only because overall sales come down. So when sales come down margins also come down, but Neetu you just give some details.
- Neetu Kashiramka:** Basically for this year the fixed cost saving is going to be 180 cr and 50% of this is sustainable and 50% of this will come back once the business is back?
- Dilip Piramal:** 100 crores of the cost is now at sustainable saving whenever the sales ramp up that 100 crores of cost is not going to come back into our company not for a while I mean may be after two, three years they will come back. Fixed overheads also are fixed only for let us say two, three years if business grows very much then even fixed overhead grow up.
- Nisarg Vakharia:** I can calculate that because that 90 crores cost saving that you are saying you will do regardless of the sales at some point of time in the future.
- Moderator:** Thank you. The next question is from the line of Karan Khanna from Ambit Capital. Please go ahead.
- Karan Khanna:** So my first question is to Sudip sir when you say that you expect the company to reach pre-COVID level in next year and half and this is very difficult number to project given the assuming times, but internally do you track how much of your sales are driven by domestic travel, international travel, institutional and say other avenues like wedding etcetera because from what we understand the international travel is still far distance away before it start giving any seeing any meaningful signs of recovery?
- Sudip Ghose:** If you see we as an organization is very strong in the heartland in areas where marriage is a very important. So I will give you an example most of our business if you have to divide between travel and wedding it is kind of 50-50 in year you know in history in past where we have seen the year the marriage dates are less our growth really gets impacted. Now there is a pent-up demand of marriages the marriages have not happened in last six months and I do not



think it is going to happen in the next 6 months either because where VIP is strong marriages happen during summer and to have marriage in winter is really expensive.

**Dilip Piramal:** In April we operate all over India so virtually every state we have a branch in April and May our highest selling branch is Bihar and I think Bihar does 70% of its annual sales in these two months. I mean it is a phenomenon you have to see and this is only specific to VIP. Our market pool is very strong in Bihar and eastern UP.

**Sudip Ghose:** There is no marriage without VIP that is what they say.

**Dilip Piramal:** Even there I will tell you something, earlier our aristocrat luggage used to be a competitor it used be separate company prior to 1988 and we make similar products and later on when we merge the two companies we started making the same product only the label is different means one has a VIP label and some products have aristocrat label. The VIP products sells at about 20% higher price and it has a much larger market share in the same product exactly the same product the one which sells another VIP brand has a higher price and a higher market share so that is the pull of the brand. So we are very strong in the Eastern region in this marriage market and the reason also that the eastern region is the poorer region of India right from Bengal, Bihar, UP and the international markets and all are much stronger let us say in Delhi, Bombay even the South like Samsonite and all sell more. So our market share in the East is very large and a lot of it is this marriage segment I mean in Bihar it is phenomenal.

**Sudip Ghose:** To answer the question is this pent-up demand, we presume it will come in next year April, May, June should be very good that is one and the domestic travel also would come back. International travel will take time, but if you see what chairman has been saying there is a big opportunity for us to go after the international market which as of now we did not go because we did not have the capacity which now that we have these are the three factors which will push ourselves faster than anybody else in this sector definitely among the three competition that we have.

**Karan Khanna:** Second question was on CSD imposing a ban on import of finished goods now in the last call you did mention that you have started procuring soft luggage from domestic vendors in India in a more normal year how would this impact your blended margins for the company or do you think that CSD as a channel will lose its relevance in the next in one to two years and hence would not have meaningful impact in margins?

**Dilip Piramal:** Definitely it will not CSD will remain an important part of our sale, but in percentage in our sales is definitely coming down at one time it used to be nearly in excess of 25% and now it has come down to about 15%, but we will breakup we can even manufacture our own in India we do not have to rely on outside vender there is nothing which prevents us and in fact this whole Make in India and all process is going to be useful to us also and probably we in some states like Jharkhand and all they are offering good opportunities. So far we have Bangladesh so we did not consider that, but we will start manufacturing somewhere in the East the cost are



not so bad there. Prior to this I mean Bangladesh was much better, but nothing will prevent us from setting up an operation in India.

**Karan Khanna:** Neetu with the future retail and reliance coming under legal scanner how do you see this impacting a recoveries from Big Bazaar?

**Neetu Kashiramka:** So we will have to wait and watch because currently we do not know right what is happening, but we understand that this might take three more months to close the deal. So once that happens I think we probably will be there.

**Sudip Ghose:** And once the silver lining is that there is other which is Central and brand factory has started paying so we have started getting monies from this so just a Big Bazaar which is where it is there, but indication is by the end of Quarter 3 or may be early Quarter 4 we should start getting our dues. So one of the good thing that has happened is on the website they have uploaded the outstanding of each of the vendors which means there is no discrepancy that would be there. So whatever is your outstanding has been shown and we have kind of seen its kind of rough matching to a very large extent. So the money in that way is safe in terms of whoever has to pay because it is already uploaded.

**Karan Khanna:** This website is only for the suppliers or is it open for all?

**Neetu Kashiramka:** It is only for suppliers.

**Sudip Ghose:** Therefore, the money is there it is just the deal should have been done, but it got into its own issues. However we believe it is a matter of time.

**Karan Khanna:** It is for each individual supplier they put it how much they are worth they won't tell us own Safari or anybody else.

**Sudip Ghose:** You can actually see there it is available and therefore the vendor wise outstanding.

**Karan Khanna:** So we can see only what is owing to us not to the other.

**Sudip Ghose:** Therefore the money is safe for us and but the other two entities Brand factory and central have started paying slowly.

**Moderator:** Thank you. The next question is from the line of Aditya Bapat from Equentis PMS. Please go ahead.

**Aditya Bapat:** Sir when you said that you would not be investing in a particular line of business for now so did you mean that the new line of business that you had hinted that in the last quarter that has been delayed or postponed for now?



**Dilip Piramal:** Yes you are right. We have not done much we just said that there is some little bit of research on the markets and all so that is all internal I mean we have not spent anything extra on that.

**Aditya Bapat:** And that is delayed I mean it is not cancelled?

**Dilip Piramal:** It was not so concrete or anything it was not something very big.

**Aditya Bapat:** And my second question is like earlier on one of the participant ask you said that there are certain products which we will be making differently for E-commerce, so what exactly did you mean by that making differently for E-commerce?

**Sudip Ghose:** See there are various kinds of material available right it is like when you go to buy or when you go to make a suit there is material which is Rs. 2,000 meter so for E-commerce you do not use expensive material you use the lower material and therefore the cost of the material comes down the kind of wheels that you use, there will be all quality it is not like we will compromise on quality, but there are various kinds of products that can be created where the cost of the product is far lower than what you actually do and therefore even if the price comes down because your cost is lower you can still make a decent margin therefore you make for the channel you do not make and that is the key to success because for E-com we need to make for E-com, for CSD we need to make for CSD and sells those products that is how it has to work.

**Dilip Piramal:** Can I explain to you a little bit broadly what is happening basically in E-com that it can become a very large business for the lower end. So far we have not really concentrating too much on that lower end and all because it was also the unorganized sector so E-com cannot unorganized sector cannot cope with E-com so much because they made good volumes, they need much more organized and the unorganized sector is very small you know the luggage industry by itself is a very small category. So our unorganized sectors are even smaller so they cannot really deal with all these E-com and all. So we will get a bigger market share of that, but that is the totally different it is a lower end product so obviously cost also are lower it is not the same product as we explained very well that a Rs. 2000 fabric under 300 for fabric also this is like very cheap shirt you can say and again I want to reiterate because it is a very common feeling amongst lot of people including many consumers and important business people also sometimes it is a mistake that the brand always remains this Amazon and all are not conflicting with the brands and they are not really conflicting they are in other channel. So it is not that there it is a totally different type of business, but it has its own peculiarity. So we have to adjust to that.

**Aditya Bapat:** Lastly my question is on like say like the demand for luggage could obviously take some more time to come back probably with some help from weddings and all that, but apart from that what is the kind of trajectory that you are seeing in handbags or backpacks now that some people have started working from offices and all that, is there any strength over there?



**Dilip Piramal:** one sector which will grow the fastest and that is E-com and over there the biggest market is backpacks.

**Sudip Ghose:** Sir the only issue is because see backpacks is driven primarily by schools and colleges so till the time schools and colleges do not open that will not have, but the moment it opens like Chairman said it is going to really fly because every year when the new session comes there is a huge demand of backpacks so backpacks will definitely come back and like one of the callers have said the short distance travel will happen. So we will see a lot movement of backpacks duffel just like the products much more than probably the luggage, but they all depend on how the schools are opened and how office is opened even now the offices are not opened really. If you really see none of the offices have seven days a week or rather six days or we got a five days a week there is really one day or two day a week. So it will take time as and when it opens these will move definitely faster, but also remember that domestic travel is going to happen that is something which is going to be there and the marriages and therefore we said that it is a gradual those channel started off by saying we are the worst affected it will take some time for all the ingredients to come back to the industry and category.

**Dilip Piramal:** So I just want to reiterate two points one is that the smaller items these bagpacks and all these are at the lowest end of item. So their sales is going to be the maximum on E-commerce so these are really large volume items and again these are the items which are much better to be made in Bangladesh it is much more economical to make them in Bangladesh than anywhere else because the smaller the item the more the labour content raw material content becomes less and the labour cost goes up I think that is a big advantage for us in Bangladesh. So we are actually best equipped for these items to compete.

**Aditya Bapat:** Just one last question if I can squeeze in like what percentage of your EBOs and MBOs could be opened currently is it like all of them are opened?

**Sudip Ghose:** See we have actually now taken this COVID and we have closed down a lot of non profitable outlets. So overall we have kind of closed down just about 100 EBO which were not and we said any EBO which will not make profit after we reduce the top line the 50% is something that we do not want to carry. So all our EBOs are now very profitable as and when the malls are opening.

**Aditya Bapat:** So 100 out of 250?

**Sudip Ghose:** 100 out of 250 actually closed and we are also evaluating the other ones so what we are doing is wherever the malls are opening we are opening and high street most of them were opened. So if you ask me around 70% to 75% of our space will be open.

**Moderator:** Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.



- Ronak Vora:** Do you see any kind of inorganic growth that we are looking afterward cash that we have?
- Dilip Piramal:** Inorganic growth meaning buying out any company?
- Ronak Vora:** Buyout any brands or any company since I believe that we will be getting better valuations for them in current times.
- Dilip Piramal:** See in the luggage industry there are very few players I mean there is nobody in India whom we can acquire and internationally also there are very few big players as I said we are at this level we are the at the pre-COVID level of 2,000 crores and today at a COVID level of 600, 700 crores we are actually the second largest luggage company in the world I mean I find this very difficult to believe but it is the fact. So there are not too many targets also.
- Ronak Vora:** You are saying that it is quite not possible on the luggage end, but can we see anything on the backpack end or anything?
- Dilip Piramal:** Backpack is even smaller I mean they are all small which can you think of any company?
- Rohan Vora:** Basically I thought making many small acquisitions not some big players.
- Dilip Piramal:** I mean just give me an example?
- Rohan Vora:** There are certain brands in Backpacks like Rockstar and all these brands which are very small.
- Dilip Piramal:** Rockstar is a Indian brand have you heard of it.
- Rohan Vora:** We can see them in rural areas for sure
- Moderator:** Thank you. The next question is from the line of Nishith Shah from Nepean Capital. Please go ahead.
- Nishith Shah:** So I just had a question on the sale of the Haridwar factory which was sold in August, September for 25 crores, so just wanted to understand the reason for selling it because it was contributing around 27 crores in profit and around 250 crores in revenue so the valuations seems on the lower end, so are we being going to be able to produce like generate this kind of revenues from Bangladesh.
- Dilip Piramal:** What valuations seems to be on the lower end.
- Nishith Shah:** So the Haridwar factory it is contributing 27 crores to the profitability of the company in FY20 and we have sold the factory for 25 to 30 crores.
- Dilip Piramal:** Yeah, but now the market is not there so we can make the same thing as our Nasik factory.



**Nishith Shah:** Actually my question was exactly that we will be able to basically generate this kind of revenue from our other factories or not that was the question?

**Dilip Piramal:** Yes definitely, but the problem is sad part is that we would not have need to make so much because our sales are down and this is the Haridwar factory was originally made because we were getting excise and sales track concessions so those stopped that was a for 10 year period so it stopped around 2010 or 2012 quite a 5 years, 7 years ago. So after that because it was a low cost factory and all it was okay for us to run it, but that tax benefit has ended anyway and whether we ran it at Nasik or we ran it at Haridwar it did not make a difference. Now that our sort of demand has gone down by more than 50% than at least for two years it will remain like that. We can easily make it in we can make that production in Nasik or we can even make it in Bangladesh and we save the overheads of Haridwar. So it is a very good decision and we in fact we are making a good profit on the we are happy that we got a ready buyer in such a short time because generally industry is affected but lot of FMCG industries are setup in Haridwar and the buyers are around those ancillaries of these FMCG companies. So we got an immediate impact we are making a good profit on the sale of the asset.

**Neetu Kashiramka:** This transaction is yet not completed so profit on sale of this will come in Quarter 3 also we are only selling the plot for land and building entire machinery is getting shifted to Nasik. So as and when the business improves the production can be done in Nasik.

**Nishith Shah:** So just wanted to understand so we had purchased this at what price?

**Dilip Piramal:** All these details are there give the details here, but we are making nearly I think let us say out of the 25 to them giving a very rough figure we are making a profit of 12 crores virtually we are getting double of the land and the building price that is what we are selling land and building. I am surprised that we have found a buyer so fast since the transaction is not completed it will get completed in this quarter I hope.

**Neetu Kashiramka:** It is waiting for some regulatory approvals.

**Nishith Shah:** I have this question because the plan was going really well and we had like 27 crores on profitability?

**Dilip Piramal:** I do not know where this 27 crores figure has come from.

**Neetu Kashiramka:** Sir we have a disclosure requirement when we sold the property which we gave what is the revenue and profits from this unit approximately.

**Dilip Piramal:** But that 27 crores it get transferred to Nasik we have so much capacity building in Nasik.

**Nishith Shah:** So another question was also on the demand trend which we were talking about in the call earlier that October is now looking very good so could just give us a sense as to how?



- Dilip Piramal:** Very good means that is better than the last six months. It is still about less than 50% of our pre-COVID levels. See again October could be it is a festive season and all that I do not know Sudip we will do better in November than October we will do more sales or no I doubt it.
- Sudip Ghose:** So this month Diwali is on 14<sup>th</sup> which is next week and I guess we would see some slag after that as Chairman said we are better of the Quarter 2 definitely nowhere near our pre-COVID number.
- Nishith Shah:** I mean great is like relatively speaking.
- Sudip Ghose:** Yeah true.
- Moderator:** Thank you so much. The next question is from the line of Madhuchanda Dey from MC Research. Please go ahead.
- Madhuchanda Dey:** My question is you mentioned that you know that roughly 50% of the demand could come from was coming from bidding and the demand for backpack is contingent on schools etcetera opening similarly if you could shed some light that pre-COVID see in FY20 what percentage of sale was completely contingent on international travel?
- Dilip Piramal:** Sudip I think we should now analyze this a little bit more so far we did not bother so much we have some idea, but your question is very correct we have to analyze still now earlier on we said whatever is selling we are making it and it did not really matter from where the demand came, but I think we have to get into these details get more granularity on this anything you like to add Sudip.
- Sudip Ghose:** Yeah it would be anything between 10% to 15% will be international downgrade the rest will be all local.
- Madhuchanda Dey:** In a normal course you would have grown by at least 10% to 15% right annually so if suppose if this 10% to 15% or even 20% is roughly your share from international travels, why is that your reaching the pre-COVID levels would take so much longer like two to three years?
- Sudip Ghose:** Because if you see even in the domestic travel is nothing that everything has come back I mean we are talking about a situation where somebody in previous call said office is opened office is not opened office is opening for one or two days a week. India has also not come back.
- Madhuchanda Dey:** I am not asking you anything about FY21 is well understood because we have only done 140 crores in the first half, but I am talking about FY22?



**Sudip Ghose:** Can I come in here let me say that it is always better to plan little bit of conservative so that you manage your cost well than to plan aggressively because end of the day we do not know how it is going to pan out I will give you an example if you know Quarter 3 does not do well if people are not travelling Quarter 4 how will people travel in Quarter 1 if for instance Quarter 4 is a 400 crores quarter or 500 crores quarter and we know that there is a growth of 20% between Quarter 4 and Quarter 1 so my point is that it is very difficult to be very excited some people were talking on hope, but realistically speaking we would see even the domestic market has not come back the marriages has not happened domestic travels are not happening.

**Sudip Ghose:** Let me put it another way madam is that what happens is that for us to get back to our pre-COVID level is very easy we do not have to do anything we have the whole organization, we have our own manufacturing in India, in Bangladesh so that we can do at the flip, I mean one month we can do it, it does not take us anything to do that. So we are already ready for that we have the whole organization.

Let me comment here just to reiterate my point it is very hard to predict 2021 travel volumes, domestic or international so we can say we are very well placed to come back so should domestic passenger traffic in 2021 be 80% or 90% of let us say last year volumes.

**Madhuchanda Dey:** Let us say calendar year 21 suppose the calendar year 21 domestic passenger volumes are 70% or 80% of 2019 calendar year domestic volumes than our revenues will go like that it is not domestic the volumes are 30% to 40% then they will stay 30%, 40%.

**Dilip Piramal:** Let me correct you 21 it will increase quarter wise so maybe last quarter of 21 that is October means one year from now that quarter might be 80% of pre-COVID levels, but it does not make any difference in our action if it happens we are ready for it we do not have to do anything great to do that, but we cannot increase our overhead right now so we have to be careful if it happens we will happily do it and we wish it happens.

**Moderator:** Thank you. The next question is from the line of Sanket Goradia from VEC Investments. Please go ahead.

**Sanket Goradia:** Is this giving us an opportunity to explore say other segments that we could cater to for example say laptop bag and the like?

**Dilip Piramal:** We already have that.

**Sanket Goradia:** So are we seeing traction their laptop sales?

**Sudip Ghose:** Sir offices have not started how many days of office do you do in last week. India has not opened the moment India opens we have product we have been selling product we know. So we have to let India travel whether it is domestic whether it is local, whether it is international as and when like Radhika said our trajectory of business is quite as same as the trajectory of



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the airline business now some airline is hopeful we are planning big. The only thing is we are not going to plan on hope we are going to plan and because we can do turnaround things faster it is all going to be quarter wise if the airline business goes up our sales will go up. If the offices open our laptop bag sales will go up because we already have these products and we have enough in the stocks. So there is nothing and currently there is no trend seeing because I mean the sale is 100 crores I mean where we are like 25% of what we used to sell so there is nothing that we can give you as a trend.

**Dilip Piramal:**

One thought just occurred to me and that is more in relation to the previous question that depending on the industry you can it is very easy for us to get back to our older levels and let us say for a hotel it is absolutely easy whether hotel occupancy is 20% or it is 80% so 80% they do not have to do anything virtually the hotel is there and they might have reduced some staff, but those guys have also most of them unemployed so they will all get back. So similarly for us to get back to a older levels and all that is very easy and what you said about laptop is like laptops are very much like these small items like backpacks and all and so they are already they have the cheaper items so far we are not concentrating so much on those now we will be doing more like lot of these luggage I mean computer companies they have very big orders, but their prices are very low for these laptop bags and all because they are OEM manufacturers so they want at the cheapest. So let us say if it suits to get at all those prices we will do it.

**Moderator:**

Thank you. The next question is from the line of Siddhartha Grover from Equirus. Please go ahead.

**Siddhartha Grover:**

So sir as we can say in the numbers the H1 revenue has been approximately 140 odd crores whereas the inventories have only decreased by 50 crores, so what explains this 90 crores divergence?

**Dilip Piramal:**

Inventories are at cost price and sales are at selling price so our selling price is nearly double of that basically that will be there and then we might have bought out certain things, but I think broadly it is a difference in selling.

**Neetu Kashiramka:**

Yeah some bit of manufacturing.

**Moderator:**

Thank you. Ladies and gentlemen that would be the last question for today I now hand the conference over to the management for their closing remarks. Thank you and over to you.

**Dilip Piramal:**

In conclusion I will say I mean I will repeat what I have said earlier that we are in a better position than other luggage companies I would say all over the world because we have opportunities to sell in international markets and because we have our own manufacturing facilities for now nearly 100% of our sales we are definitely better off than most other luggage companies because all the larger companies in luggage business do not have their own manufacturing at the moment.



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**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Securities Limited that concludes today's call. Thank you all for joining us and you may now disconnect your lines.