"VIP Industries Limited Q1FY23 Earnings Conference Call"

July 27, 2022

MANAGEMENT

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Conference Call
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Moderator: Good evening, ladies and gentlemen, and welcome to the VIP Industries Limited Q1 FY23 Earnings Conference Call. From the senior management we have with us today, Mr. Anindya Dutta -Managing Director and Ms. Neetu Kashiramka – Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anindya Dutta - Managing Director, VIP Industries Limited. Thank you and over to you, Sir.

Anindya Dutta: Hello and good evening. Thank you for joining this call late in the evening. We've been putting late evenings ourselves to bring out our results faster, and I believe this is the fastest we've been till now, and hopefully we'll strike and we will improve further beyond this. Before we talk about the results, firstly I would like to tell you that at VIP the whole team is very happy to have a disruption free Q1, the peak season quarter, which we were eagerly awaiting for the last two years, since Q1 was completely washed out because of pandemic. And with the conducive environment, and more importantly, with all the hard work that the team has put in, I'm quite delighted to announce the revenues were at ₹591 crores, which is the highest revenue quarter that we have ever reported. This is also a 5% growth over the pre pandemic Q1 FY20. Just to contextualize the environment on one side travel opened up in a very nice way. We saw sequential growth in airline passenger traffic both in April and May. However, the level of domestic passenger traffic was not same as what was in Q1 FY20, it was slightly lower, and we also saw a slight decline in the month of June. International travel has also opened up while it's still gaining momentum. We didn't see much of a corporate travel coming back, and that's not something that we were expecting to happen. By and large, I think travel is coming back and that's quite helpful for us. During the wedding season there were enough wedding dates within the quarter, and I think it was celebrated the way it should be and we got the benefit of that. The schools and colleges opening helped us in terms of the sale that is dependent on the consumption because of schools and colleges. So overall a very good conducive demand environment. But while we say that I think there were equal or newer headwinds that we were facing. On the inflation side, we are dealing with an inflation that we have not dealt for almost a decade, we are approximately at a 24% inflation over the same period last year, this inflation is not only putting pressure on our profitability, but also could be a potential demand **dampener**. Besides inflation, one more key call out here is the future group and the closure of stores in the transition. It had a big impact on us, out of the 430 stores of future group across **all its banners**, only 44 were operational in Q1 for our business. We had a high dependence on this one account, ~15% of our revenues used to come from future group stores, all banners put together, pre pandemic, and that was extremely constrained in this quarter and we had to look at avenues to regain the demand that would have happened because of future group. We are expecting this revival to happen by Q3 hopefully. In spite of the headwinds as you can see, the result has been quite good. If I were to talk about the performance in channels, modern trade was the largest hit in this whole thing because of future group did makeup at least 50% of the loss through other accounts within modern trade and a large part of this was also made-up by other channels. In retail (exclusive business outlets) has performed very well. It has come back to the same revenue as it was in Q1FY20. With almost 100 stores lower than what was in Q1 FY20. Even general trade expanded and got the business very well. In fact, one of the things that general trade is taken on is to see how do we penetrate further **down pop strata** and during the quarter we had 68 new towns opening up for us. Equally e-commerce performed well in driving the growth, but e-commerce is now place where we always have a much higher potential than what we are possibly getting largely because of coming from a relatively lower share in e-commerce. So by and large I think all revenue streams in terms of channels performed very well in terms of our brands and categories also, we had great performance both in the value segment as well as in the premium segment. VIP and SkyBags Brands created good buzz in the market with high decibel campaigns. In fact, we were the only brands active on TV in the last three months. Campaigns like "the Wedding collection" using with the protagonist Vaani Kapoor or "change the world" with Varun Dhawan really did well for us. Even on Caprese we went back on air with digital and print brand activation and the Caprese brand as well has come back to its pre pandemic level. Besides the brand activation, many new launches were done in this quarter and I'm very happy to share that all of our new products (whether it is in tech themes or the high fashion zone) have done extremely well during the quarter for us. So overall, the revenue has been pretty good. When we look at the gross margin, that's a bit of a dampener from what we were expecting, and are largely coming from the inflation that we experienced we saw gross profit of 50% which was sequentially lower than the previous quarter, largely because the previous quarter had the price increase kick in. However, the cost increase or the inflation really took place in this quarter. Price increase was designed to cover part of the inflation and it was designed to take a slight hit on gross margin this quarter because as we go ahead with other cost reductions we will neutralize the impact of the inflation. With all that very happy to say that our EBITDA is at 18.3%. The control on all other fixed costs was in line with what we had planned and therefore it gave us a EBITDA 18.3% and PBT of ₹100 crores. We continue to remain strong on our fundamentals, whether it is building the channels or building the brand and more importantly building our supply chain. We've often spoken about our own manufacturing and control manufacturing share as part of whatever we are selling and that scaled up to a 79%, which is quite heartening to see. Going forward, we are quite confident about the demand environment to remain stable, while the inflation and the areas on some of the channel like future groups will continue to put pressure on us but as the overall environment stabilizes we are more confident to work through these constraints and make sure the fundamentals that we are building helps us to continue to deliver good results. With that, thank you and I would now open the session for questions.

Moderator: Thank you very much, ladies and gentlemen. We will now begin the question and answer session. First question is from the line of Karan Khanna from Ambit Capital, please go ahead.

Karan Khanna: Can you talk about what's been the volume recovery now v/s pre Covid during the quarter and as a follow up what would have been the revenue losses which the company would have seen during the quarter given the impact of future group.

Anindya Dutta: So the volume growth is 8% on the base (FY 20) and it's difficult to quantify what is the loss because of future group, since the stores were not open, but overall the consumer demand was caught in other avenues and other channels so we had a plan to look at the catchment area wherever the store is shut and we activated our own stores or MBO's nearby. We also take took up fest and whatever else is possible. Especially in malls where these stores were there. So if you see overall, I would think that we have almost recovered or whatever the future group last was in in most of the other channels. But one cannot say for sure there would be some loss. Overall, I think given the performance that we've had, it seems that large part, at least of what could have potentially happened through future group, was captured in other channels and other stores.

Karan Khanna: On the raw material front, if we can just talk about how the situation is now v/s the previous quarter and what's your take in terms of raw material going forward, will the prices cool off or will the benefits be passed on to regain market share which has been lost over last two years.

Anindya Dutta: It's a little mixed bag in terms of what we're seeing in the market right now as far as raw material is concern. There is some softening that we are seeing, but there is continued high inflation in many other components and raw material that we have. In the immediate quarter I think we are already covered for the raw materials, so we expect the inflated conditions to remain for us in the immediate quarter. However, slightly in the long term, it's quite volatile for me to predict right now. What benefits could come in from where we are right now. As the benefit comes in, I think our strategy on competitiveness and profit remains the same where we continue to walk a tightrope as long as we continue to strive to Market share gain while we have healthy gross margins and overall profit.

Karan Khanna: On the supply chain front while your dependence on China has reduced to around 11%, can you give us some sense if there has been any disruption with respect to raw material procurement given the current lockdown situation in China? And also what happens with the supply for backpacks and handbags and premium luggage which are still imported from China?

Anindya Dutta: On the raw material front, yes, there has been quite a difficult condition in terms of disruptions from China. A part of it was covered through a little bit of pre planning and some bit has happened. We're trying to bend things “here and there” to make the ends meet, so that's going on. But as China stabilizes, I think the flow will stabilize. As far as buying finished goods on the high fashion portfolio which is Caprese and backpack, part of it will continue to happen from China and barring the disruption of days and weeks whenever we have had in the past or if we will have happened in the future, we are trying to cover that up with having extra inventory in some of the core areas that we believe will be high sellers.

Karan Khanna: And lastly, in the recent annual report you mentioned you were looking to add 120-150 EBO’s this year via asset light expansion. This roughly implies a run rate of around 30-35 stores per quarter. Can you help us understand if you're on track for this and how many stores have you opened?

Anindya Dutta: So just to reveal some numbers here in this quarter we have added 21 stores and we have signed up 23 more stores within this quarter, so I'm quite sure that we should be able to maintain the run rate.

Moderator: Thank you, the next question is from the line of Bharat Chedda from ICICI Securities. Please go ahead.

Bharat Chedda: Despite there is a raw material inflation, it is credible that you have maintained gross margin at 50% level. But if you look at EBITDA margins then probably it is at 17.4% compared to probably Q1 FY20 where we had a margin of around 22.2%. So what has been the reason for this EBITDA margin being lower?

Anindya Dutta: Firstly, I think EBITDA margin is 18.3, if the number is correct. We have converted ourselves to our own manufacturing and that has changed the cost line from gross margin to more overheads and fixed costs. So as we expand our own manufacturing, that cost is not coming below the Gross Profit line. The pressure is not in below the Gross Profit line but the pressure is really in the gross margin line which is purely happening because of the completely unprecedented high level of inflation that we are dealing with.

Neetu Kashiramka: Just to add, there were one or two additional expenditures like exchange rate fluctuations which impacted the EBITDA margins. 2% of EBITDA margins actually impacted because of exchange rate fluctuations. If you see the slide we have given other expenditure details, you will get that information.

Bharat Chedda: Related to this, what kind of margin are we looking at for the full year? Will it be in the similar lines to this quarter or we can expect an improvement in the EBITDA margin for FY 23 overall?

Anindya Dutta: We would love to maintain this but to be honest, it's quite volatile for us to predict right now, but given the conditions stabilizing, I think anywhere between 18%-20% is what we should aim for in the second-half of the year.

Bharat Chedda: Need clarification about the volume growth, you said is ~8% vis-à-vis Q1 FY20. Is that correct?

Anindya Dutta: That's right.

Bharat Chedda: But if you look at in the value growth totally for that period is around 5%. Is my number correct?

Anindya Dutta: You are actually right the mix is in favour of the value portfolio, which is changing the value-volume equation.

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

Tejash Shah: In your opening remarks, you sounded a bit disappointed. I'm not sure if I read it correctly, but is it that there was a part of demand which was there and we could not cater to or where you slightly disappointed with the demand itself because you also spoke about air passenger traffic not going to pre COVID level in the quarter.

Anindya Dutta: Tejash on a lighter note, I think you should see the time on the watch and decide is it disappointment or fatigue. We just finished a long meeting but absolutely not disappointed. I think it's a brilliant performance. Much awaited that we were wanting to get to and this has added all confidence in the team. Yes, there are many moving parts in the business and we got to manage all of them. So the good news is that as we speak right now, whether it is a fourth wave or not, I think the consumption of our products has become steady and this itself is going to multiply all the efforts that we've been putting in the last eight quarters to stabilize our business. So I I'm quite optimistic and confident about the future.

Tejash Shah: Secondly, I think Neetu Madam also spoke about in the previous question that visibly aristo alpha's contribution pre COVID to post COVID has actually picked up materially and as you also mentioned while answering in previous question that it is the reason of margin dilution also, but just wanted to know is this focus largely consumer demand driven or we were highly under indexed in this segment and that's why we have put a disproportionate focus on this part of the segment.

Anindya Dutta: No, I think it's a brilliant question because yes, it is coming from an under indexed past in the value segment. Also what is happening is that there is a higher tailwind in the value segment which pandemic has brought in with maybe unorganized market yielding into organized. So definitely from every reason you see it is very important to address that from a share gain and also from a growth point of view, because that's where the market is growing faster. In fact, our approach and our strategy was to see how do we cater to this more profitably, and therefore the hard luggage, and within that the hard luggage made out of polypropylene is what we went after and we put capacities, we have invested capital behind it and that's something helping us right now not only to cater that demand but also what we would have otherwise done, we are doing it slightly more profitably.

Tejash Shah: So similarly, bagpacks if you see the saliency there it has a wide gap between pre COVID to now. So intuitively, we would have thought that the pent up demand of school and back to school and back to office would have normalized in this quarter, but it is not visible in bag packs going back to the pre COVID number. So any insights if you can share.

Anindya Dutta: Yes, you are right that the demand with all the demand drivers has come back. I think what has happened from our side, which is not really fully worked for us, was the delay in the in the launch of the new collection that we had. So there was a miss from our side in terms of a slight delay in the launch of that, and possibly we didn't get enough of what the demand brought to us in the last quarter, but again, fundamentals in place. I think this is just a correction and in the series of many corrections this is a slightly delayed correction that we've had.

Tejash Shah: Last question on the business model change that we spoke about that, after almost 15 years the focus is coming back on domestic production. And that also means, that part of the value chain profit will be captured in our P&L, but at the same time how should we think about the ROCE going forward? Because Capex intensity should increase logically from here on.

Neetu Kashiramka: Our business per say is not to Capex heavy so payback is 18 to 24 months. So from that point of view, if you see our return on capital employed is ~30%.

Tejash Shah: If you can share Capex plan for this year and next if you have.

Neetu Kashiramka: So this year we have, Capex plan of ~₹50 crores.

Tejash Shah: And this will be for Nasik facility?

Neetu Kashiramka: Not only Nasik, it is a mix of all Bangladesh, Nasik, as well as some more.

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

Jinesh Joshi: I have a question on exports, I understand that it shares about 3%-4% currently. But given the fact that most countries are now looking to diversify their supply chain from China post the pandemic. Are we seeing any increase in enquiries over there? The reason I'm asking this question is because in the past it will be about 10% to 12% of our top line. So can we expect to reach that level in the near future?

Anindya Dutta: Firstly I think, international business could mean a very large opportunity for us, which we haven't exploited or explored in the past to that magnitude, but we would like to do eventually in the future. But we had a certain export business in the past, pre pandemic. Firstly, I think in this quarter we've not only come back to that level, but we have surpassed that level. In Q1FY23 export, stands about 5% of our revenues. And this is not only the China and the supply, but also the export and the front end team is working hard to reopen every country and every sector that we had. We had about 20 odd countries to which we were selling in the past, we have exceeded that in this quarter. So two parts to that to see one is to reactivate what we had in the past. I think we have reached like in all other areas reached and surpassed that base, with some gap from now we would look at possibly going into international with a much bigger game plan.

Jinesh Joshi: Any specific geography you would want to highlight?

Anindya Dutta: So in our existing business, I think Middle East and largely GCC is where the core of what we're doing **lies**. We had a change of channel partner in UAE.

We have now entered the Saudi market. So these three countries are yielding well for us in the previous quarter, and what we see in the near term we should be getting better and better there and exports into many other countries in Southeast Asia or some European countries that also resumed what we had before.

Jinesh Joshi: Secondly I have a question on Capex. I know this sounds a bit repetitive, but if I recollect properly in the last call we had stated that we have plans to incur Capex of about ₹30-₹35 crores, but in the annual report that figure was mentioned as ₹65 crores. And in response to the previous question into, ma'am gave a figure of ₹50 crores so, I just want to collate the numbers in a better way. Which area are we spending into and the reason for diversion in numbers as well.

Anindya Dutta: This is for the previous year.

Jinesh Joshi: No FY23.

Anindya Dutta: So we will come back to you with all the number part. On the difference in number in whatever sources you are looking at. But then what Neetu said right now it is order of the magnitude ₹50 crores is what we have outlaid for this year.

Jinesh Joshi: No problem, we'll take it offline. One small clarification, we have some exceptional gain of ₹15 crores with respect to fire insurance claim, but total amount which we were supposed to receive was approximately a ₹48 crores. So any specific reason why we have received the partial payment and not full payment in this quarter?

Neetu Kashiramka: So the survey report is not completely out. This is an interim payment which has come and we have accepted because at least now it justifies that the claim is legitimate. So we are expecting around ₹41-₹45 crores of payments recovery on this, which will come only by Q3FY23.

Moderator: Thank you, our next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: My first question is that offsetting the loss of the future group, which was about 15% of revenue has been a commendable effort. So if the future group comes back, do we see this as additional revenue? Or how should we look at?

Anindya Dutta: No, it won't be. See the way I said that there is an overall demand in the market and shifting between stores or channels is quite possible. So as I said, the way we made-up for it is by having a catchment area strategy. When it comes back, I think it will reorganize itself to that, but it's very difficult to quantify that how the particular retail chain or the store does drive the demand further overall for the category and yes to that extent one is fully functional. I'm hopeful that it will add something more than whatever, because wherever else we are getting that kind of attraction may also continue at a higher base. There's no perfect science to this because finally it is the consumer demand met through various stores or by different channels. And there is a lot of fungibility between them, so when it comes back it is it will be a very welcome situation when future group fully becomes operational.

Bhargav Buddhadev: Secondly, on the LFS side the earlier VIP wasn't that aggressive and they were giving our businesses to competitors, but now we understand that your team has become fairly aggressive and they have started increasing their share on the LFS side if you can sort of elaborate briefly on this side in terms of what is the penetration and the opportunity over here.

Anindya Dutta: I don't share the same perspective that we were not very aggressive and we are aggressive now we are aggressive across. And the LFS side does represent, the premiumization agenda that we have, whether it is with Caprese or whether it is with luggage and therefore VIP and Skybags. That channel and that sector for us is high yielding for premium and more fashion related range within our brands so we will continue to be aggressive on that and it's more about segmenting it right and we're t putting the right agenda and the right strategy behind each of these channel segments that we have.

Bhargav Buddhadev: My third question is which areas of talent in your opinion, are we still short off and what are we doing to fill these gaps?

Anindya Dutta: This is something that we've been working very hard in the last four quarters. In terms of building up the team, we are at relatively much better position than what we were about a year back. But we continue to look for better and higher talent in e-commerce. Definitely, that's one area, along with that, in the innovation side and therefore design and product development sides. So these are areas which are very strategic. And these are going to be a newer journey for us going ahead and therefore that's an area which is more under focus for talent build from here onwards and other areas that were under priority is being done.

Bhargav Buddhadev: And my last question is that now with the currency depreciation being so sharp and we being more sort of backward integrated and also sort of manufacturing more in India, is it fair to say that we are now fairly well placed as opposed to our competition? Both organized and unorganized.

Anindya Dutta: Well, I would say we are relatively better, but "glass is still half empty" There's a lot to do in terms of our raw material and finding out an alternate sources of raw material. We are still dependent on China for a large part of our raw material and stream lining all that. So the agenda isn't over, I think we have made a very solid big start. We could be ahead, but what we see is that there is still some more to go before we can really say that we have consolidated on this one strategic shift that we had done in the organization.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: Just wanted to understand how has been the online performance for the quarter.

Anindya Dutta: The online performance was good, both sequentially as well as on the base that we had both the last year and **the 19-20 base**, we have simply grown by excess of 50% on all accounts. As I said, while having said that, we think that it could always be better because this is where we are and we do not have the share that we have in other channels or even our overall share in the market. So there is a catch up game that we are playing as well as ecommerce is concerned mostly in the marketplaces.

Ankit Kedia: Sure, and so my second question is what is the learning from the future group which we have had having a high dependence on one group, so incrementally would reliance also have a high single digit market share for us or revenue contribution for us along with canteen sales. So are we de-risking ourselves to a particular group or we continue to have high dependence on particular channel of Group.

Anindya Dutta: No, I don't think we can see it like that, because depending on how big the retail chain is, brings us a certain opportunity and the idea is to maximize in each one of these channels in terms of our share and salience. So it is not in our hands to de-risk by saying that if the chain is doing very well, we don't want to have high share because we want to have low dependence. That doesn't make sense. Yes, the situation that has happened in the last quarter is unfortunate, I could only say unfortunate because of our high dependence, but one cannot have a strategy of lower dependence on a chain which would only happen if you decide to have lower share in that chain.

Ankit Kedia: And what would be our dependence on reliance today? Because lot of the stores would be taken over by Reliance now.

Anindya Dutta: When that happens we will get a sense of what volumes are stabilizing. This question would be more to reliance in terms of where they are seeing the big Bazaar volumes overall. And for my category, how much they will come back to, but that's something only future will tell us.

Ankit Kedia: Sure, and my last question is on the A&P Spend. The quarter we have had around 5.5% of A&P spends. Do you think for the full year around 5% would be the ballpark number we would maintain A&P spend this quarter.

Anindya Dutta: Yes somewhat like that.

Moderator: Thank you. The next question is from the line Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh: So the first question is on the contribution of polypropylene (PP) with hard luggage through the total sales and polycarbonate (PC) with hard language through the total sales.

Anindya Dutta: Total sale of hard luggage or the overall company sales.

Akhil Parekh: No, no within that. The breakup of polypropylene based hard luggage and polycarbonate based hard luggage.

Anindya Dutta: We can share the data, don't have it ready right now, maybe offline. We could connect with you and give you the data. If you want a ballpark, I can give you some understanding. It's roughly between 70-30 kind of a split in hard luggage but precise numbers I'll share with you later.

Akhil Parekh: And if you can highlight margin differential between PP and PC level.

Anindya Dutta: Well, margin is a price dependent variable, but I can tell you what is the per kg cost difference between polypropylene and polycarbonate; polycarbonate is almost 70% more than a polypropylene on a per kg basis of the raw material.

Neetu Kashiramka: But margin wise it doesn't differ much. It is 1%-1.5%.

Anindya Dutta: yeah, because the pricing is different. So we are using polypropylene to more fight in the value game, and polycarbonate more is in the skybags and VIP in the premium segment. So margin is a derivative as I said of pricing.

Akhil Parekh: What is the difference between landed costs of a China based manufactured luggage vis-a-vis in-house manufactured luggage in India?

Anindya Dutta: Again, difficult to give one number on that, but in Bangladesh the raw material and the duty arbitrage overall on an apple to apple comparison is about 15% for us.

Akhil Parekh: Value segment growing at a faster clip, and you briefly alluded that there is a translation that is happening from unbranded to branded but would it also be possible that there is a down trading happening where a VIP consumer is going for aristocrat product. Given that the RM inflation is very high and we are observing that value conscious consumer is moving towards the lower priced product, so would that be a possibility by any chance?

Anindya Dutta: Yes, I cannot deny a possibility, and knowing that there is a possibility, we from our side do everything in our product mix that we create. Post understanding the target audience needs, who should be buying a VIP and skybags, we add the features and market it properly, in order to retain a VIP and skybags customer and we try and get the affordability segment consumer in Aristocrat brand. But that being the strategy, it cannot be 100% volatile. There could always be a possibility of cannibalization happening in terms of down grading.

Akhil Parekh: What is the average selling price across the three brands? Basically VIP, Carlton and aristocratic.

Anindya Dutta: No. Well, I won't have that right now. It varies from channel to channel and from range to range, though there is no one average number that can be put as a reference here.

Moderator: Thank you. The next question is from the line of Chirag Lodhaya from Valuequest. Please go ahead.

Chirag Lodhaya: My first question is on understanding this gross margin improvement because of structural shift to own manufacturing versus China sourcing. So what are the sustainable level of gross margins going ahead? I understand currently there is a bit of inflation, but in a normalized scenario we have to assume versus pre COVID what kind of improvement one should expect.

Anindya Dutta: So you were right, as of now the volatility makes it difficult for us to put a specific number, but an underlying 53% to 55% Gross Margin is what we should we are aiming at in a stable environment. Given the **construct** we have, I think 55% is quite possible on a consistent basis once the volatile situation is out.

Chirag Lodhaya: Okay and you mentioned that Bangladesh manufacturing landed cost is 15% cheaper versus China sourcing coming to India. How it would be when it is compared to third parties or in India?

Anindya Dutta: So I'll tell you how that Bangladesh 15% is coming. I'll give you a very broad based duty arbitrage, when raw material comes into Bangladesh v/s finished goods coming into India. The India duty is 15% whereas in Bangladesh there is no duty on raw material. Assuming that my conversion cost is same as China, which ideally should be lower in Bangladesh than the 15% at least remain as an advantage over the China finished good import. Comparing with India sourcing now it all depends the assumption the Raw Material is coming from China then the 15% definitely remains because Bangladesh production cost in terms of people and other cost is lower than India from where we are producing. But the comparison is not always Apple to Apple because India's raw material sourcing depends on product depends on specification and many things like that. But overall the comparative numbers are largely coming from the duty point of view.

Chirag Lodhaya: So basically you are trying to say that Bangladesh manufacturing is as competitive as China despite China having massive scale. Is that fair understanding?

Anindya Dutta: Only on the conversion cost. If you keep the raw material side, because if you're buying the raw material still from China and there is a freight cost, that is happening for the raw material to come in. So that freight costs is partially getting off-set by the labor cost advantage that we have in Bangladesh. But again given the current situation and the freight costs, that equation does not work out in netting it off completely but pre COVID freight costs and the lower labor costs in Bangladesh, offsets each other and to that extent it brings us at least to the parity or maybe slightly lower because we're still buying raw material from China.

Chirag Lodhaya: And with current freight rates what would be the arbitrage? Is there arbitrage or today we are **nullifying that with higher freight**?

Anindya Dutta: No, the freight rate is higher there is not a perfect setup that is happening.

Moderator: The next question is from the line of Kirti Govind Dalvi from Enam AMC. Please go ahead.

Kirti Govind Dalvi: Just a couple of questions first, if I see the tax rate on console as well as on a standalone basis it seems to be a little higher so is there any one off? And secondly, what is the sustainable tax rate we are seeing for the FY23 and FY24?

Neetu Kashiramka: So this is high on account of dividend which we have received from Bangladesh. When we give dividends from VIP India, this will get offset under section 80 M so that impact is 5%.

Kirti Govind Dalvi: Okay, so for the year probably the blended tax rate will revert to normalize rate of 25%?

Neetu Kashiramka: Slightly lower because Bangladesh tax rate is 15% and India will be 25% so blended it is going to be around 22.5% or 23%

Kirti Govind Dalvi: Obviously Q1 has some base impact of last year, but would it be fair to assume a mid-teens growth? Given all your future group stores will come back and we are seeing the uptick in the travel as well.

Neetu Kashiramka: So we are looking at a similar growth. If you take it on normalized base.

Moderator: The next question is from the line of Niteen S Dharmawat from Aurum Capital. Please go ahead.

Niteen S Dharmawat: As you mentioned that we have shifted operations to Bangladesh and we hear some economic issues over there. So what is the risk that we see in case there is some disproportionate economic issues faced by Bangladesh economy and what will be our fall back option in such scenario?

Anindya Dutta: Once again, this all economic situation that you were talking about in Bangladesh is not something that we are aware about. In fact it's all in the news that Bangladesh economy in the last 10 decades has done the best and is ranked among the highest. So overall, it seems like a very progressive economic environment. Yes, overall any country does have a risk and we will evaluate the risk and continuously prepare for that. China would have been also a risk in a pandemic environment, when we were sourcing from China prior to the pandemic. I don't think the risk is high or something that needs to be addressed as of right now or in the near future.

Niteen S Dharmawat: It's a very recent news actually. It has come today only, so we might not have got the attention to it. But that's okay, we'll discuss it later on.

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

Ankit Kanodia: If beyond couple of quarters (maybe four quarters), looking directionally where we are today and as we see currently for this quarter our contribution from Aristocrat and Alpha is higher but it is a lower margin product and maybe inflation pressure is also out by that time, probably some of our problems of future group are also subsidized, and if the travel direction continues to be strong, how do we see ourselves in that sense? Because they are also doing spending a lot on our advertising and promotions. So how do we see that reflecting, I'm not looking at any numbers but directionally and any qualitatively, you would like to see beyond 3-4 quarters, how do you see VIP?

Anindya Dutta: So that's exactly is the space where we are wanting to reach. Given the situations that we have been dealing with, yes, we have been focused on more difficult things like changing our supply chain and all that. Value and growing is a necessity for us right now, because that's where the market is growing. Equally, we have to look at how do we, get our costs right so that the value end is played profitably as well, relatively lower than the premium segment, and finding the right balance because as we go ahead and in the scenario that you are painting, what was very core to us, which is represented in the VIP and Skybags brand, should come back in terms of not relative salience, but in overall absolute throughput and in growth terms so that's what we are aiming for to get, and hoping some of the environmental things will settle down as you go along, which will settle down. I'm pretty confident in the future, so I think we will emerge much stronger than what we were before the pandemic as things stabilize from here on.

Ankit Kanodia: How do we see competition evolve pre pandemic and post pandemic? Because post pandemic, we must have seen some of the unorganized players shut shop, and they facing a lot of problems. How is the competition in the organized space right now and how different it is from the premium metric? If you would like to give some color there.

Anindya Dutta: I think the competition has only intensified. But given the one constraint in the demand environment that is bound to happen and therefore a lot of you know pressure on profitability and all that comes in because in a constrained demand, the large players put in everything that they have to get to revenue. So as that eases out, overall the industry profitability will stabilize. But competition will only intensify going forward in this space. It's a very small category compared to overall India and all other consumer categories. The penetration was low, given where our economy is, I think, the penetration is only going northwards from here, and with that the overall industry grows, the competition will only intensify. I think whatever we are doing is to ready ourselves to participate in that with the better strength than what we had before.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Dalmus Capital. Please go ahead.

Pulkit Singhal: My first question is regarding the seasonality in the business, there used to be a certain level of seasonality pre COVID where second quarter is down 20%-25% and then gradually picks up and first quarter. This time around do you expect it to be somewhat different to giving some kind of pent up demand, etc. I mean, the level of seasonality to be lower? Or do you think it will be the same level as seen previously, pre COVID?

Anindya Dutta: I think this seasonality from a demand point of view will have a similar but just an interesting insight that if you were to look at slightly longer horizon. The acuteness of this seasonality over a period of time has reduced, and I think that's also happening because one of the vectors of growth is holiday and travel, and that has changed a lot from only summer vacation to many mini vacations. And marriage dates are becoming more open than what it used to be before, and all that so it's a gradual change which has also been visible if you see our seasonality over the years, but in the near term and just about the past pre pandemic, I don't see any reason why it will be very different from the industry overall.

Pulkit Singhal: I'm just checking from a pent up demand perspective as well, because sometimes people may not travel entirely in Q1, and may look to probably travel in Q2 as well. So just wanting to know whether that is playing out?

Anindya Dutta: We don't know that, but we'll hope for that and we are ready for that.

Pulkit Singhal: And in terms of market share, last quarter we talked about low 40’s. How are things progressing in the marketplace? Are we still around similar levels, giving the impact of modern trade in future group or are they improving now?

Anindya Dutta: No, I think we are definitely holding our market share overall, but it's a feel and as number starts coming out for the industry we will also get a sense of how that is happening. I think definitely we are holding on to the market share that we had is what we are hoping for if not improving.

Pulkit Singhal: Then lastly I thought high inflationary environments are typically a for an organized players and that allows the organized players to take share from them. Is my understanding incorrect or they've kind of managed it lot better or you're seeing that happening?

Anindya Dutta: Are you saying between organized and unorganized players?

Pulkit Singhal: Yes.

Anindya Dutta: This market share that we're talking about is about the top three companies' relative market share basis for specific data that comes out so correlating number is difficult to what you're saying. But yes, inflationary environment disruptions and supply situations all favors large players and always has been for all kinds of businesses and categories, and to that extent we have had the tailwind as organized players and may continue to do so because if China was the source of products for unorganized players. Directly or indirectly, I mean finished goods or raw material is going through some disruption to be sometime before it resumes fully.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today I now have the conference over to Ms. Neetu Kashiramka from VIP industries for closing comments. Thank you and over to you ma'am.

Neetu Kashiramka: Thank you everyone for joining this call and sorry about keeping this call so late this time. Next time we'll definitely try and make it to your timings. Thanks, in case you have any other questions, you can definitely connect with me. Thank you.

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