Conference Call Transcript

VIP Industries

Q1FY16 Results

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Corporate Participants

Ms Radhika Piramal
Managing Director

Mr Jogendra Sethi
CFO

Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the VIP Industries Q1 FY'16 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 the 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 Ms. Shraddha Sheth from Edelweiss Securities Limited. Thank you and over to you Seth!

Shraddha Seth: On behalf of Edelweiss let me welcome you all to the Q1 FY'16 Earnings call of VIP Industries. From the management today we have Ms. Radhika Piramal, the Managing Director and Mr. Jogendra Sethi the CFO of VIP. So without any further ado I will hand over the call to Ms. Radhika for her initial comments post which we will open the floor for Q&A.

Radhika Piramal: Thank you Edelweiss for hosting our call. It is my pleasure to present our Q1 results. Without any further ado, I will talk about the results. We will discuss the sales, the expenses, some of the underlying reasons and then I will open for Q&A.

We achieved sales of Rs. 354.4 Crores which is 7.6% up from Rs. 329.4 Crores in Q1 of the previous year. This is slightly lower than our expectation or ambition. Out of 7.5% growth, volume growth was around 4% and price increases were about 3.5%. The channels which performed very well were hypermarket channel which continues to grow slightly better than expectations. Some of our brands grew very well. Caprese is growing at around 30%, Skybags is growing at around 30%, and Carlton is also growing at around 30%. CSD continue to disappoint and just a sort of single digit growth. The other segments which did not do well was our International Business (IB) which actually declined quite a bit, it was due to continued weak conditions in the UK and Europe and also continued competitive pressure in the Middle East. IB and CSD were two big drags on our growth rate for the quarter gone by. It is quite a similar story to our performance in the previous three quarters. I think that it was our fourth consecutive quarter of 7.5 to 8% growth and in that sense the call today is going to be a little bit similar along the same lines of the last two or three calls where we are working on improving CSD as well as our existing sales operations but it is going to take some time. As I had mentioned that Caprese, Skybags and Carlton are growing well. VIP is the lead brand in the CSD channel and as CSD is not growing, it puts a bit of pressure on VIP so in the sense VIP is not growing that fast. VIP is also the brand that has the highest contribution of hard luggage amongst our brands because Skybags and Carlton have a little higher soft luggage and the traditional suitcase segment continues to register significant decline. So for these reasons, VIP brand is flat whereas our other brands are growing really well.

On the expenses side, I will talk about the cost of goods sold. Our cost of goods sold (COGS) in Q1 was 55.2% which is very similar to Q1 in the previous year that was 55.1%. Despite the fact that the Rupee to the Dollar in the quarter gone by was 62.74 whereas in Q1 of last year it was 60.48 which is a 3.7% depreciation of the Rupee in Q1 this year versus last year however we have maintained our margins which is a good sign. Price increases are working. Our COGS of 55.2% which is a bit higher than the COGS in Q4 of last year i.e. was 54.7% which was despite the fact that the Rupee was very stable. This slight decline in our margin and slight increase in COGS is due to (a) the brand mix and (b) the decline in our international revenues because our international revenues have a very good gross margin and in Q1, we sell a little bit more of our Alfa, value for money brand, as compared to other three quarters.

Moving on to the other expenses, the next is employee benefit which was Rs. 29 Crs up from Rs. 24.5 Crores, quite a significant increase of 18%. In some ways this growth is here to stay, a good portion of this growth is the cost of in-store promoters both in our stores as well as in CSD canteens as well as in hypermarkets and this cost is increasing due to both the number of promoters, we are adding which is due to the channel expansion of the hypermarket. In that sense, it is a structural change which will continue to happen and also due to the increments we are giving to these promoters. So, we expect some continued pressure on this expense.

Depreciation was not significant. Other expenses of Rs. 90.3 Crs were up from Rs. 80.6 Crs in Q1 last year which is an increase of 12%. I would like to highlight that our advertisement in Q1 was Rs. 24 Crores which is up from Rs. 17.6 Crores in Q1 of the previous year which is an increase in advertisement by 36%. Our advertisement spends are increasing much faster than our sales growth. It is a matter of slight concern in the short term but it shows the confidence of management and the promoters in the long term. When our profits are not exactly what we would like, we continue to invest in our brand while we work on our channel and distribution issues to improve the sales growth. We advertised three of our main brands. We advertised VIP luggage, Skybags brand backpacks and Caprese handbags with an excellent new spring summer TV ad showcasing Alia Bhatt which was very well received. So, an important part of our company's result is the advertising effectiveness. We found that Skybags and Caprese have done very well. VIP TV ad met with mixed results. Other expenses include rents, branch and warehouse rent, stores rent and outward freight. EBITDA margin was at 11.2% versus 13.2% in Q1 last year mainly due to increase in advertisement and employee cost which are basically frontline staff representing our brands in stores. So, all these expenses have increased directly to present our brands to customers and consumers in store and the increase is partly to keep investing in our brands to improve our sales growth because we know that 7.5% to 8% is not really the sales growth that we are targeting as a company. So, we had a profit of Rs. 25.1 Crores which is just little bit down from Rs. 26.8 Crores in Q1 of last year. As I said in the last two calls, these are not the sales growth rates we are aiming for however it is taking longer than expected to address all of our channel issues and we are very much focused on improving these figures as the year goes by. We are pleased with the sales growth of Caprese, Carlton and Skybags which are three new brands that we have launched/re-launched in the last four years. It shows that our strategy is working. Once we address the channel issue of CSD and turnaround the IB business, I am very confident that the sales growth will improve and the investments made in brand building in the last three years will pay off. With that, I would like to open to Q&A.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Manoj Gori from Equirus. Please go ahead.

Dhaval: Madam, hi, this is Dhaval here. Just few questions, I just wanted to know what is happening actually in our brands like Aristocrat and Alfa also because if we are saying that all our other brands are going at 25%-30% like Caprese, Carlton and Skybags are we seeing a de-growth in these brands right now?

Radhika Piramal: Alfa declined and Aristocrat grew. It is partly due to channel strategy we had. We are focusing Alfa on the dealer channel and Aristocrat in the hypermarket channel. We are aiming Aristocrat squarely against Safari in the hypermarket channel. Aristocrat and Safari are slightly at lower price points than Skybags. Decline of Alfa is very much a channel issue. The dealer channel is also not growing. There is a fundamental consumer shift in India where consumers prefer to shop in air-conditioned environments where they can buy multiple goods under the same roof but that puts a lot of pressure on the dealer channel where VIP and Alfa were the strong brands. Our company's hard soft mix is now 30% hard and 70% soft but Alfa and especially in Q1 it is almost 50:50 as a brand because it is a value for money entry level product for a consumer who is very security conscious and prefers hard luggage and this product category is declining. So, Alfa is declining as a brand.

Dhaval: Madam, if you do not mind if you can just give a rough number like what percentage of our revenues for FY'15 could be from Alfa and Aristocrat also.

Radhika Piramal: I have given as much information on brand wise.

Dhaval: How is our e-commerce doing?

Radhika Piramal: E-commerce is doing very well. We are growing at 100% now obviously this is a small base. We are very excited about this channel. Percentage growth is irrelevant. We are focusing right now to get our assortment correct. We want to grow without having any channel conflict so we have to just be a little bit careful with what kind of discounts the e-commerce channel partners will give and to be honest because of that reason at this time we have not yet offered our entire product range to e-commerce. If anyone goes online and searches on let us say Flipkart or Amazon and will find that the entire ranges of VIP, Skybags and Carlton range are not available on this channel. It is an exciting channel for growth. We are taking it very seriously. It has a lot of management focus but we are going to do it at a pace which does not alienate any of our very important other channel partners which right now contribute much more to our revenues.

Dhaval: Do we plan to launch some separate brands for E-commerce also in the future?

Radhika Piramal: That is not our plan at the moment because we do believe that the consumer is looking for the same brands which are so popular everywhere. I do not see making a separate brand just for e-commerce because I do not think that it will be very consumer friendly in the long run. I think that it is more important for us to get our assortment and merchandise differentiation correct.

Dhaval: Any initiatives that we are taking on VIP right now, VIP as a brand just to get some specifics on that?

Radhika Piramal: In VIP, we are working on adding up a polycarbonate line. Polycarbonate is a light and strong hard luggage which is more comparable to soft luggage because of the convenience, lightweight and four-wheeling and it is comparable to the typical hard luggage suitcase. In VIP, we want to focus on polycarbonate and also want to focus on backpacks in VIP. We have seen tremendous success of Skybags backpacks. We first launched backpacks primarily under Skybags brand because Skybags is a youthful brand clearly positioned to be younger than VIP as now we have done that successfully. Our next goal is to increase the sales of backpacks from VIP brand so both these efforts are expected to help VIP brand growth. Fundamentally, VIP brand has good health. We continue to advertise the brand. VIPs product range is the best of all the brands in our portfolio. It is the widest, best quality and at the right price points. We have to address the hard luggage suitcase decline, the traditional dealer channel decline and the CSD competitive issues which what will make VIP grow.

Dhaval: Do you think that all our competitors are also facing a similar kind of challenge on the traditional dealer network?

Radhika Piramal: The dealer network is a structural issue.

Moderator: The next question is from the line of Sundar S from Spark Capital. Please go ahead.

Sundar S: Thanks for the opportunity madam, question on this Haj Committee order which was on news a few days back on 2 lakh suitcases, can you give an update on that?

Radhika Piramal: We are very happy and proud to say that we have won the Haj Committee order. We have actually been working on this tender for the last two or three years but in the past it has never gone to a major Indian luggage manufacturer. Earlier, it had gone to agents who had been using imported unbranded Chinese goods so we are very pleased to have that. We have not recognized any of that revenue in Q1 because the deliveries are going to happen in Q2 and the collections will happen in Q3.

Sundar S: What could be the approximate impact?

Radhika Piramal: It is too early to say. I will prefer to announce that in the next investor call.

Sundar S: Madam, just another question relating to the same as to would there be any margin impact because of this sale?

Radhika Piramal: Yes, there might be. It is a bulk order which cannot provide the same margin as the rest of our business. However, we have to take a marginal costing approach to it.

Sundar S: Madam, just another one on the competitive intensity, has there has been any significant change in terms of market share over the last quarter?

Radhika Piramal: Not over the last quarter but we have been facing the challenges for last 12 months.

Sundar S: So market share would remain the same.

Moderator: The next question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.

Sunny Agarwal: Madam, my question pertains to what the situation on a raw material front with the crude coming off; just your thoughts on that and how that can help us to boost our margin?

Radhika Piramal: It is a very good question. I would like to say that one would have hoped that our hard luggage gross margins would have improved a bit in Q4 and Q1 because oil has come down significantly. However, the supply of polypropylene in India is not quite exactly based on market prices. We have two major suppliers and their prices have not come down in line with the oil prices which have been disappointing. I would like to say that we have not had the margin expansion that we would want.

Moderator: Next question is from the line of Mr. Mithun Soni from Geecee Investments. Please go ahead.

Mithun Soni: I have more of a strategic question. I want to understand today if we see as a brand bouquet what we have, we have three premium semi-premium brands which is the Skybag, Carlton and VIP and Aristo and Alfa is at a little lower end category which is more price sensitive customers are not really looking at the brand per se in a way, they more go with the price per se, now if I have to understand VIP strategy, the company strategy over the next two three years, how do we want to transition ourselves, how do we see ourselves moving in which direction?

Radhika Piramal: So the first thing is to grow Carlton as a premium brand. You mentioned that there were three brands in the premium or semi premium. I would like to differentiate that Carlton is at a much higher price points than VIP and Skybag so one goal is to really Carlton takes market share from Samsonite in a fairly significant way; right now it is much smaller brand than Samsonite which is one clear strategy for the company. Alfa and Aristocrat will continue as they are very good. Having two brands is helpful to reduce channel conflict across the traditional dealer channel, the hypermarket channel and the e-com channel which are quite price sensitive and in the middle we have VIP and

Skybags where the differentiation is not so much on price as it is on positioning. Skybags is a sort of young and funky and VIP is more like trusted and reliable.

Mithun Soni: Okay, so now if I were to ask today if we see we are primarily a luggage company, luggage bags can we see something like a backpack and Caprese style of products coming up in a big way, what I am trying to highlight here is you know when it comes to luggage the level of involvement.

Radhika Piramal: I absolutely agree with you. One way to think about it is luggage. The typical luggage is something that is only bought by a customer may be once in three years or once in five years. Therefore, it is low involvement. The importance of brand is perhaps not as high as it will be for let us say handbag or a backpack both of which are products which are used everyday to office or social gathering for ladies etc., and that is precisely why we have launched Skybags focused on backpacks and Caprese focused on handbag and also Carlton which is aimed at the premium business traveler which is aimed on office bags because these three categories of products are used daily, bought once a year or may be twice a year in the case of handbags. Therefore, brand is more important. I am clear that new brands take time to grow. VIP is a 48-year-old company and until last five year, we only had VIP and its growth rate is what it is. Now, we are growing three new brands so it will take time for them to get scale on the fundamental disposition of the company to change but once it does the gross margins on these products will be better especially the handbags and the business bags because when a brand is fundamentally more important to the person using it then you can charge a brand premium more than what you can do in luggage where price remains very important.

Mithun Soni: Okay. So if I were to take these two three categories particularly the backpack as well as the handbag category what is the strategy like how are we looking to add couple of more brands in the Caprese?

Radhika Piramal: No, I think that we have enough brands in our portfolio right now. We have six brands in our company and I think we can add more backpacks in VIP brand because VIP it is our flagship brand and it is the most trusted luggage brand in India. People especially professionals will be happy to carry VIP backpack. We do not have the full range developed yet so we are working on that.

Mithun Soni: What is the initial size for opportunity or the feel you are looking for?

Radhika Piramal: It is not so helpful to just put a number on it. It is a very big market and the majority is unorganized. We have to build nationally leading brands in these categories the way we have in luggage that is a clear company strategy. We want to target market share in backpack, handbags and business bags the same way we have in luggage in terms of our market share which is a five to ten year journey not a three to five year journey.

Mithun Soni: In the earlier conference calls also you said that probably the raw material cost or the gross margins this is the new base, should we take it as that way or there is some potential for gross margin improvement coming up?

Radhika Piramal: I mean that there is always potential but with Rupee that looks to depreciate by 3% to 5% every year I would not like to give guidance.

Mithun Soni: But the revenue mix change would not that help us in any way or its looks very difficult?

Radhika Piramal: I will not be able to give any commitment on that. Management will always try to improve the gross margins but I think that remaining stable at this level is a fair assumption.

Moderator: The next question is from the line of Damodaran Kutty from Edelweiss. Please go ahead.

Manoj: Hi Radhika this is Manoj here, my first question is how much exports did contribute to our sales during this quarter, was there some growth there also?

Radhika Piramal: I am sorry.

Manoj: Exports a percentage of our sales?

Radhika Piramal: Normally its 10% of our sales and it actually declined quite a bit this quarter, so proportionately it would have come down like couple of percentage.

Manoj: So this quarter it might have been only 8% of your overall sales vis-a-vis 10% right?

Radhika Piramal: Correct.

Manoj: Secondly on Caprese my question is that at what level of sales of Caprese will you start retailing some of the profits into the company like, at what level of the sales Caprese will start contributing to the bottom line?

Radhika Piramal: It all depends on the adspend. At this level of sales, we are spending Rs. 15 to 20 Crores advertising Caprese and so there is no specific level because as it grows, management may decide to spend even more on advertising. In terms of the fixed expense it is already very profitable. It is the advertising and I do not see why we cut down on 'X' level of sale. We are building the brand for the long term.

Manoj: Okay. But have you like what three four year down the line because as the brand keeps on growing the advertisement expenses also will keep on growing we have some number in mind that at this level of the sales the brands will start contributing to the bottom line, if you would like to share that number?

Radhika Piramal: Not really.

Manoj: Lastly, as we discussed last time almost 80% of the sales is contributed by top 20% cities and remaining 20% from other 80% so just wanted to understand your strategy or scaling up the growth from the remaining towns and how you are going?

Radhika Piramal: We are still working on that. We are doing a couple of pilots with different distributors. We have to solve the logistic issue.

Manoj: But do you see there is a potential to change this proportion like the kind of 20% of revenues which we are getting?

Radhika Piramal: I know the market potential because I know that there are customers who are aware of our brands and find them attractive. It is our job to get our product to them but in a way that does not compromise the margins of the company and we are working on the same.

Moderator: The next question is from the line of Ajay Khandelwal from Birla Mutual Fund. Please go ahead.

Chanchal K.: The question is that how is the sales trend being the month of April, May, June, July, has that trend improved in terms of each month on month, are you seeing improvement in consumer sentiment leading to improvement in sales?

Radhika Piramal: At this point I would just like to comment on Q1 results and not July.

Chanchal K.: Yes, Q1 if you can comment April, May, June, was June better than previous two months.

Radhika Piramal: No, it is not.

Chanchal K.: Secondly on the CSD on the international business both the businesses are not doing well for us, what are the steps you have taken to improve these two businesses?

Radhika Piramal: In CSD, we are investing a lot in promoters who are on the shop floor selling the product that is one of the reasons that employee expenses also increased so we feel that they are the best representative of our brands. It takes time to hire and train good people but I am very confident that it will show results.

Chanchal K.: But have we lost market share in the CSD?

Radhika Piramal: Yes, we have lost.

Chanchal K.: So what is the other person doing right, I mean we were strong?

Radhika Piramal: A new competitor that came into the channel in a big way about two years ago and we have been losing share to them and what happens when there is a new competitor that enters the channel and they are very aggressive both in terms of pricing as well as their promotion then they took some share and now we are trying to get it back.

Chanchal K.: Is it pricing which is the major culprit?

Radhika Piramal: Competition priced much cheaper than us but the whole point of having a brand is you are meant to be able to sell at a higher price so rather than lower price I would prefer to put in these promoters and have them do a good job of selling our brand. It will take longer but its better for the company in the long run than cutting price. On the IB, this was a difficult quarter such a big drop is also because we had some issues with particular distributor in Europe so such a big drop is not going to happen continually like this. However, growing this channel significantly will be difficult. It has been sort of flat.

Chanchal K.: On the e-commerce platform can we list in Amazon globally and sell Carlton brand are you doing that also?

Radhika Piramal: You know ultimately what really counts regardless of channel whether its e-commerce or hypermarket independent department store is the power of the brand and that is what consumer go for. Carlton will have the same problems in e-commerce abroad that what it would have in regular shops or department shops.

Chanchal K.: Just lastly this question has been asked before on the gross margin bit with the crude fallen so much, at what point in time?

Radhika Piramal: This question has been asked before and the answer would be the same.

Chanchal K.: At some point in time would you not like to substitute your buying with at least 20%-30% of your buying from someone else if you can get a better price?

Radhika Piramal: Obviously if that were available, I would have done it by now. We do not want to compromise on our quality of raw material. We are a brand and PPE at the particular blend and quality that we want has just not been available in the market. It is disappointing. I also feel it should come down. If you look at the law of economic, PPE prices should come down more than they have.

Chanchal K.: So it may come down you are saying.

Radhika Piramal: I do not know. I am saying that it should have come down already while it has not.

Moderator: Next question is from the line of Bhavesh Jain from Envision Capital, please go ahead.

Bhavesh Jain: Hello madam, can you give us some details about our Bangaldesh operations?

Radhika Piramal: Yes, I am pleased to inform that in Q1 we have another profitable quarter from Bangladesh. Our first profitable quarter was Q4 of the last year and there was another one this time. I am very pleased with the progress of the factory. Now, we have got our productivity right and we got our manpower cost right. We have got our raw material cost right so now we can in fact begin to scale up a bit and I could give you a more complete report on that in the next quarterly call.

Moderator: The next question is from the line of Chirag Lodha from Value Quest. Please go ahead.

Chirag Lodha: My question is regarding contingent liability, I was going through our FY'15 annual report, your disputed sales tax liability has increased by 50% over FY'14 so what is the reason, can you just elaborate on that?

Radhika Piramal: So it is specific sales tax issue. We are very confident that this is a contingent liability and not a liability that we need to provide for and I would like Jogendra to please talk in a bit more detail.

Jogendra Sethi: We are supplying to our several institutional customers and we have warehouses across India. We have around 22 warehouses across India and one of the institutional customers provide us local orders which are called LS orders and the same orders are serviced from the branches. Maharashtra Sales Tax authorities have alleged that we are supplying from Nashik or Sinar factories against local orders to the branches and from branches we are billing but situation in our case are that we are maintaining inventory at branches and we are servicing from branches.

Radhika Piramal: And they are applying sales tax on to the concerned state.

Jogendra Sethi: Maharashtra Sales Tax authorities have alleged that Maharashtra state is losing sales tax because it is predetermined sales and have issued show cause notice. Matter is before tribunal and in this case we have already paid sales tax in the state from where billing was done and one will not pay sales tax twice on the same transaction. We are confident that we are going to win.

Chirag Lodha: And this liability is increasing why?

Jogendra Sethi: As assessments are happening, disallowances are being added which are expected to be clubbed at the tribunal stage.

Chirag Lodha: So it is not like FY'04 for example FY'07 was 7 Crore liability so that 7 Crore has not increased?

Jogendra Sethi: No, assessment has been completed for FY 2011 after FY 2010.

Radhika Piramal: If people have a copy of our annual report, I would like you to look at page no. 40 of our annual report and the main matter which CFO and I are referring to is where it says Rs. 97 Crores and CSD various years from 1983-1984 and 2010-2011, so this will keep increasing actually.

Chirag Lodha: I am not able to understand so 1983-1984 to 2010-2011 in FY'13 the same amount was 21 Crore FY'14 that was 60 Crore and in FY'15 it is 97 Crore.

Jogendra Sethi: I explain to you. This is for FY 2008-2009, 2009-2010 and 2010-2011. Assessments have been completed for these 3 years. Previously, we were getting centralized orders and we were supplying from factories.

Chirag Lodha: So FY'15 includes all old issues also.

Jogendra Sethi: Yes.

Radhika Piramal: I agree that it is a big looking scary figure but we are extremely confident.

Moderator: The next question is from the line of Sundar S from Spark Capital. Please go ahead.

Sundar S: Just a follow up on, strategic question too, historically running through VIP volume numbers we found a correlation between VIP volume growth as well as the air passenger growth, the air passenger growth over the three months has been robust but not our sales, so what is the disconnect over here?

Radhika Piramal: The disconnect is the continued competitive pressure in the CSD channel and the decline of the IB channel neither of which are linked to passenger growth so I mentioned that we are growing very well in hypermarkets. In CSD, we have a specific competition issue where we are trying to fight to get back some market share from Safari and Samsonite. In IB, it is an overall brand strength issue but neither of these is linked to passenger traffic.

Sundar S: So anything that you can envision as to what could be going wrong in this?

Radhika Piramal: In CSD, it's the entry of an aggressive low price competitor.

Sundar S: No again not the CSD and IB, just getting on the hypermarkets and passengers?

Radhika Piramal: But in hyper markets we have grown well.

Sundar S: Okay, is there any lag sales which we can expect?

Radhika Piramal: I do not even understand the question.

Sundar S: Mam is there any change to the unorganized organized, so I am just trying to understand has there been a value trade down or anything of that part?

Radhika Piramal: I do not believe so. I think that I am being quite open and sharing the very specific channel issues what more I can say.

Sundar S: No I get it this question just cropped up because you are saying the higher performance of sales falls in to Alfa and Aristocrat which are of the lower end.

Radhika Piramal: It happen every Q1 because that is sort of the lagan season. It is Q1 where we have our highest sales and it is a quarter where we get the biggest mix of population buying our products at the lower value brands.

Moderator: The next question is a follow up from the line of Mithun Sony from Geecee Investments. Please go ahead.

Mithun Soni: I had just one question, is it fair to say that among the five brands, Alfa and Aristocrat is where we would have the least pricing power and we have to go benchmark it to somewhere what the unorganized and the competition is doing while in the rest of the three brands we would have good amount of pricing power wherein we can pass on the raw material cost increase whenever we have.

Radhika Piramal: Alfa and Aristocrat are still more expensive than unorganized but they are sort of 1500 rupees to 3000 rupees which is about the same as the low end of American Tourister and Safari.

Mithun Soni: Just one followup here, strategically does it really make sense to put lot of effort in a brand which is at lower end of the price pyramid?

Radhika Piramal: Wherein my strategy did you hear me talk so much about

Alfa and Aristocrat.

Mithun Soni: Sorry.

Radhika Piramal: I am saying, where in my discussion so far you have heard me emphasize Alfa.

Mithun Soni: The sales of the other three brands and everything is increasing, if we have the pricing power then are we taking all the pricing increases whenever we see the cost increase or we do not really take that way?

Radhika Piramal: We definitely take price increases in a given channel but there is limitation with overall sales growth of the company which is just under 8%. Obviously if the volume growth is 10%, we can take a much higher price increase as compared to when the volume growth is 4%.

Mithun Soni: And the gross margins other than Alfa and Aristocrat should be better in rest of the brands?

Radhika Piramal: Yes.

Mithun Soni: Okay, so in that case as the share of the other brands increase because then gross margin should improve right?

Radhika Piramal: Yes, it should.

Moderator: The next question is from the line of Shraddha Sheth from Edelweiss Securities. Please go ahead.

Shraddha Sheth: Radhika just two questions, just wanted to understand as a channel CSD we have introduced Skybags recently so are we seeing any positive momentum from there because of this introduction?

Radhika Piramal: We are in the process of introducing, barely one or two products have come so far and we expect many more products through the rest of this financial year and I am very confident that it will improve our sales in this channel so along with all the work we are doing to hire better promoters and train them and training program for our sales team. I think that launch of Skybags in CSD will really turn things around.

Shraddha Sheth: Okay. Perfect. And just one more question, wanted to understand with all the three organization of sales as well as brand probably you know five years down the line, how are we seeing the sales mix?

Radhika Piramal: Yes, it is going to change quite a bit. Modern trade is growing faster than expected. Just to remind everybody in three distinct themes; one for traditional dealers and distributors, one for modern trade which is hypermarkets and department stores and the third for our company run retail stores and franchises. It is paying off very well. Sales in company run retail stores where we saw like-to-like growth in Q1 better than we ever had before, well into double digit which is very encouraging. In hypermarkets and department stores, we are seeing around 40% growth and in case of dealer channel we need to revitalize because there is a fundamental consumer shift away from the dealer. We have to think a bit harder on how to activate this as we need to widen our reach because hypermarkets and modern trade are not in all over India but the independent dealer is everywhere.

Shraddha Sheth: Actually my question was the other way round, in fact, could we see, because of the natural growth of these modern trade channels and all could we see the traditional dealer channel to come down to under 20% of sales by 7 years?

Radhika Piramal: That may happen in some cities but this may not happen across the country. We may need to focus beyond the top 100 cities and make that a new avenue of growth for the company.

Shraddha Sheth: And similarly even for brand wise you could possibly see with the growth of all the other brands VIP could possibly come down to under 40% of sales.

Radhika Piramal: Sure. Other brands like Carlton, Caprese, VIP and Skybags have pretty good growth and actually Caprese has the highest growth margin of them all. It is alright if VIP becomes 40% of the company sales if the other brands are growing well and we manage our gross margins right.

Shraddha Sheth: And that could possibly leave the overall growth rates also five years down the line to double digit?

Radhika Piramal: Yes, I will not like to wait 5 years.

Shraddha Sheth: I mean on a sustainable basis.

Radhika Piramal: Sure, absolutely.

Shraddha Sheth: Any long term vision five years to grow at 20% CAGR?

Radhika Piramal: I think that it is good target to have.

Shraddha Sheth: Okay alright. Thank you Radhika.

Moderator: As there are no further questions I would now like to hand the floor over to Ms. Shraddha Sheth, for closing comments.

Shraddha Sheth: We would like to thank the VIP management for giving us the opportunity to host the call and thank all the participants.

Radhika Piramal: Thank you once again Shraddha and Edelweiss for hosting this call, thank you for dialing in. I do appreciate your questions and also your patience. Once again, I would like to assure you that 8% sales growth is not the internal target that this company's management has and we are really looking forward to a better growth foe rest of this fiscal year where we turn things around in CSD and IB and reach double digit sales growth very soon. Thank you for your support and patient.

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

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