

VIP INDUSTRIES LIMITED

“VIP Industries
Q2 FY2019 Earnings Conference Call”

November 15, 2018

VIP INDUSTRIES LIMITED



ANALYST: MS. SHRADHA SHETH – EDELWEISS SECURITIES

**MANAGEMENT: MR. DILIP PIRAMAL – CHAIRMAN AND MANAGING
DIRECTOR – VIP INDUSTRIES
MS. RADHIKA PIRAMAL – VICE CHAIRMAN AND
EXECUTIVE DIRECTOR – VIP INDUSTRIES
MR. SUDIP GHOSE - CHIEF EXECUTIVE OFFICE -
VIP INDUSTRIES
MR. JOGENDRA SETHI – CHIEF FINANCIAL
OFFICER – VIP INDUSTRIES**

Moderator: Ladies and gentlemen, good day and welcome to the VIP Industries Q2 FY2019 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 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 Shradha Sheth from Edelweiss Securities. Thank you and over to you Madam!

Shradha Sheth: Thank you Karuna. On behalf of Edelweiss, let me welcome you all to the Q2 FY2019 earnings call of VIP Industries. From the management today, we have Mr. Dilip Piramal, the CMD, Ms. Radhika Piramal, the Vice Chairman and Executive Director, Mr. Sudip Ghose, CEO and Mr. Jogendra Sethi, the CFO of VIP. 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 you Sir!

Dilip Piramal: Good afternoon everyone. Thank you for taking out time and joining our conference call. We had a good quarter. During the Q2FY19, the company achieved income from operations of Rs. 402 Crores against Rs. 309 Crores in the corresponding quarter of the previous year registering a growth of about 30%. During H1FY19, the company achieved income from operations of Rs. 920 Crores against Rs. 716 Crores in the corresponding six months of the previous year registering a growth of about 28%.

Consequent to the introduction of the GST several indirect taxes including central excise and VAT have been subsumed into GST. As per new accounting standards and Ind-AS, revenue has to be reported net of GST, VAT and inclusive of excise duty. Hence, results for the current year H1 and last year H1 are not comparable.

During the quarter, e-commerce and institutional business have grown very well. Modern trade and general trade channels have also grown very well inspite of high base. International business has also shown good growth during Q2.

The growth is mainly volume growth.

Now, I would like to talk about brands. Skybags, VIP, Carlton and Aristocrat, all brands are going very well. Skybags is also the leading brand for backpacks. VIP, Skybags and Aristocrat latest collections have been well received by consumer. Carlton Edge with unlimited warranty is also doing very well.

During the quarter, Premium Alia collection of Caprese hand bags have been launched, which have been very well received by consumers. As you might recollect Alia Bhatt, the film star, is our brand ambassador for Caprese. Caprese has also grown well with good margin.

Now, I would like to talk about profitability. I will be referring to consolidated numbers.

Our EBITDA was at Rs. 53.1 Crores for the quarter, up from Rs. 39.4 Crores in Q2 FY2018, a growth of about 25%. Overall our EBITDA was at 13.2% in Q2 as compared to 12.7% in Q2 of last year. Our EBITDA was at Rs. 151 Crores for the first half FY2019 up from Rs.102.9 Crores in the corresponding half last year. Overall, our EBITDA was at 16.4% in H1 as compared to 14.4% in H1 of last year. The rupee has depreciated against the USD by about 9% during the quarter. EBITDA has improved due to higher gross contribution. Gross contribution has improved due to product mix and higher sales.

Our profit after tax for the quarter was at Rs. 32.8 Crores, up from Rs. 23.8 Crores during the corresponding quarter last year, which is a growth of around 38%. PAT for the first half was at Rs. 96.2 Crores up from Rs. 64.8 Crores, a growth of 48%.

Fixed overheads are well under control.

Update on Bangladesh operation.

Income from operations from VIP in the quarter was at Rs. 25.9 Crores against only Rs. 5 Crores in the corresponding quarter last year. Income from operations from VIP Bangladesh operation for the half year was at Rs. 51.1 Crores against 18.8 Crores in the corresponding half of last year, a growth of 172%. This was also because in the second quarter of last year, there was some disruption of production and we produced only for Rs. 5 Crores as against 25.9 Crores in this quarter when operations were quite normal.

Profit after tax for VIP Bangladesh operations for the quarter were Rs. 2.7 Crores as compared to only Rs. 0.1 Crores during the corresponding quarter last year and profit after tax for the half year was at Rs. 6.7 Crores as compared to Rs. 3.3 Crores during the half year last year, a growth of 103%. So with that I turnover to your questions please.

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 Chirag Lodaya from Value Quest. Please go ahead.

Chirag Lodaya: Congratulations on great set of numbers. My first question on growth, so what is driving this such a strong growth it has been second quarter we are growing at 30%, so you can throw some light on that?

Radhika Piramal: Thanks Chirag. Everybody, this is Radhika here. Great question and I would like to take this opportunity to introduce Sudip Ghose to all of you. Sudip will be handling the Q&A and as you know, he was appointed CEO of VIP on April 1, 2018.

Sudip Ghose: Hi, Chirag. Thank you for question. The market has been good. We feel that the market has been very favourable to the industry. The biggest difference that we are seeing is that there are lot of people who are moving from unbranded to branded and therefore branded luggage business, which used to be small portion of the overall luggage business, has started growing. Hence, I think that overall sentiment and big fact that this category is moving from commodity to brand is helping all the organizations.

- Chirag Lodaya:** What is the institution business contribution in Q2?
- Sudip Ghose:** The institution business division has also done well. We do not give range wise, channel wise, or brand wise numbers but institution business has also been very good, which means that as a category lot of institutions are preferring to gift luggage because it is very functional and it helps the employees to use the product. We are getting lot of enquiries.
- Chirag Lodaya:** But was it meaningful for the quarter, just wanted to check in terms of institution?
- Sudip Ghose:** Yes, it was.
- Chirag Lodaya:** And going ahead, this kind of growth momentum one should expect?
- Sudip Ghose:** Yes as I said more and more institutions are consider giving luggage.
- Chirag Lodaya:** My second question is on our sourcing cost, now we have seen around Rs.9% depreciation in a single quarter, so what has been the impact in our sourcing cost and what corrective steps we have taken, the reason I am asking is it has been third quarter, Q-o-Q I am seeing your gross margins are coming down, so how one should read that?
- Sudip Ghose:** If you compare with gross margins over last year same time, it is actually better.
- Chirag Lodaya:** I am comparing Q-o-Q, Q1 versus Q4?
- Sudip Ghose:** The rupee actually plays an important role and we are looking into it. We have already taken two price increases during the year and we are planning to take further price increases, but you should also remember that we operate in a competitive scenario and we have to be very careful on the price increase decision therefore we are evaluating it. If we have no option, we will take price increase.
- Chirag Lodaya:** Sir, in the opening remarks you mentioned volume growth was higher than value growth and you mentioned in last one you have taken two price hikes, so this does not tally, how one should read this, if you have taken price hike say about 7% to 8% in last one year so value should be higher than volume?
- Sudip Ghose:** We operate in a competitive scenario. When we have to take decision of price increase, we have to decide in which products we have to take price increase so that we do not give up on the volume. More than percentage, we also need to take the absolute value back home. In the Aristocrat, an entry-level segment, we have been very cautious on the price increase while on the higher end, which is Carlton and VIP and to some extent Skybags, we have taken price increase. Since people are moving from unbranded to branded, the lower end segment has started really moving fast and therefore the mix also has an impact on this.

- Chirag Lodaya:** And just one last question on your other expense, the other expense for the quarter as well as for the first half it is much higher, growth is much higher than your topline growth, what is driving this higher other expense?
- Sudip Ghose:** Other expense does have the freight. Transportation costs are going up and also factory's power costs. Travel is also increasing because business is growing and flight tickets are expensive which has led to increase in other expense.
- Radhika Piramal:** There is one more significant part of the other expense, which is due to foreign exchange. Jogendra can you explain why it is flowing so in this head, but that is showing other expense and Jogendra will explain you why.
- Jogendra Sethi:** With the change in the accounting standard, difference in the exchange rate at which company is booking imports vs the exchange rate at which the company is paying for imports, is being accounted for in other expenses which is actually part of cost of goods sold.
- Radhika Piramal:** In Q2, due to quick depreciation of rupee, other expenses are going a bit higher. Our volume growth is also at 30%. Hence, freight costs have gone up a lot and there has been diesel price increase and there has been impact of quick depreciation of rupee against USD. Margin has been on decline in the last six months and it is hard to maintain even these margins. It is a paid off between price increase versus volume growth and we are evaluating our options on that to get it right.
- Chirag Lodaya:** Just Madam, if you can quantify what would be the forex loss for first half?
- Radhika Piramal:** It is about Rs. 5 to 7 Crores.
- Chirag Lodaya:** That is it. On a first half basis?
- Radhika Piramal:** For the quarter.
- Chirag Lodaya:** On a quarter, so 14 Crores on a half yearly basis.
- Radhika Piramal:** It depreciated more in Q2, so that is not.
- Chirag Lodaya:** Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Shiva Kumar from Unifi Capital. Please go ahead.
- Shiva Kumar:** Thank you for the opportunity. So, how has been the sourcing changed during the quarter, how much is being sourced externally and how is being produced in house?
- Sudip Ghose:** There will not be much of a change in the mix of the sourcing pattern as we talk of Q2.
- Shiva Kumar:** Sir, coming to the revenue growth trajectory most of the retail companies have commented that the festive season coming a bit late this year, festive demand has actually switched to Q3, so can we

say that the revenue traction, which you got in Q2 will continue in Q3, how has been the festive sales?

Sudip Ghose: I cannot hear you properly. I take your question as whatever I understood. You want to know whether Q3 revenue growth will be same in Q3 same as Q2. Are you asking that?

Shiva Kumar: That is right because the festive season getting into Q3, so you would actually have that tail a bit in Q3?

Sudip Ghose: There are two things to it. One, in Q3, we do not have much of marriage dates unfortunately and last time Q3 was very good for us. We are getting into a trouble in the second half. We are aware of that and we are going to take necessary actions for that.

Shiva Kumar: Sir, coming to your contracts with your importers, does USD INR play a larger role or does the moment of Yuan with respect to INR also play a role in how you get the raw material prices contracted?

Sudip Ghose: If both gets weak, it is okay. If one gets strong and the other one gets weak, there is a problem especially if Yuan starts getting stronger. Therefore, we balance it. Our sourcing team is aware of the fluctuation that happens in both the currencies and we play it accordingly.

Shiva Kumar: Sir, like in the current scenario wherein INR is depreciating against USD, but with respect to Yuan rates has been constant can you use the pretext and ask your suppliers to keep the rates constant, will that work?

Sudip Ghose: Yes.

Radhika Piramal: Yuan has not depreciated as much as the rupee. It is not a one to one

Sudip Ghose: Indian rupee has depreciated more than Yuan.

Shiva Kumar: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, any more capacity expansion on cars?

Sudip Ghose: Business is shifting from soft luggage to hard luggage. We are seeing this globally and therefore it is good for us because the entire hard luggage is produced in India and we are definitely looking into increasing our capacity for hard luggage in India.

Ravi Naredi: Any more capacity expansion in our companies on cars, capex plan?

Sudip Ghose: Yes, We have to invest to increase the capacity

- Radhika Piramal:** We are investing again in machinery and plants in India. Capex is not such a high spend. It is actually very good for us as hard luggage particularly polycarbonate is growing.
- Ravi Naredi:** What is your commentary H2 will be weak in compare to H1 this year?
- Sudip Ghose:** The topline growth, probably, would continue but because of the rupee depreciation, there will be some pressure on PAT.
- Ravi Naredi:** Roughly how much percentage can you quantify?
- Sudip Ghose:** I am not aware of that.
- Ravi Naredi:** We have good brands, so we can raise the prices that is why I am asking you?
- Sudip Ghose:** Beyond a point very good brands also cannot do it. We have been having a discussion, but we also have to keep in mind the competitive environment we operate.
- Moderator:** Thank you. The next question is from the line of Josias Goh from Saga Tree Capital Advisors. Please go ahead.
- Josias Goh:** Thanks for taking my question. I have two questions. The first one is on Caprese may I ask if there has been a growth of Caprese into new distribution channel?
- Sudip Ghose:** Are you asking whether Caprese has grown in the newer distribution channel ?
- Josias Goh:** I am asking whether there is a huge role of Caprese in the distribution channels?
- Sudip Ghose:** Yes. Caprese has done well in e-com. Women have started buying branded products and therefore we have started selling at high end. There has been distribution growth in Caprese because we are seeing people coming up and asking in outlets while earlier they never used to ask.
- Josias Goh:** My second question is on Skybags, so you have done very well on Skybags, which is your number one brand, so can I ask like you see greater traction in terms of opportunity for Skybags luggages or Skybags backpack?
- Sudip Ghose:** Skybags is more of a youth and youth today travels more with rucksacks and backpacks. Given a choice, I would like to make it 100% backpack brand, but it does not work that way. We also have to sell luggage. The contribution of backpacks is increasing big time in Skybags and because we are doing well in backpack market. We started only about four years back and today I think that Skybags is the biggest brand in backpack in the country.
- Josias Goh:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

- Nitin Gosar:** Question is on Aristocrat brand, is that the growth in the Aristocrat has been good and keeping in mind the kind of pricing power you may have by the end of the segment because of the competition the higher it grows the more pressure it puts on margin is that the right understanding?
- Sudip Ghose:** Yes, we have to take price increase and we cannot have a price increase in every segment. Aristocrat is selling more as we do not compromise on the product and quality. We make a little less money in Aristocrat and therefore if you sell more Aristocrat there will be some pressure on the overall margins, but we also need to grow the Skybags in the way that offsets.
- Nitin Gosar:** Fair point and the second question is with regard to it is more of a continuation of the first question, couple of quarters back there was comment that post GST the entry level price point gap has reduced between organized and unorganized and the comment was more to do with the Aristocrat brand also, now keeping in mind the raw material inflation that we have seen in the last one or may be last six months there would be more pressure on the unorganized guys because the sourcing broadly would be same, but the gap, which we used to have between unorganized and organized somewhere around 15%, if we go for a price hike do they come very close to our entry level price point?
- Radhika Piramal:** We have not seen any evidence of that in the market yet despite the rupee depreciation.
- Dilip Piramal:** How much gap did you say between organized and unorganized?
- Nitin Gosar:** I think couple of quarter back there were some comment, which was mentioning 15% to 20% is the gap now.
- Dilip Piramal:** No, it is 100% over the unorganized sector.
- Nitin Gosar:** No, the gap between unorganized and organized, so entry level price point?
- Dilip Piramal:** Organized sector may be double the price of the unorganized sector.
- Radhika Piramal:** It goes by brand. We have Carlton at the top, VIP and Skybags in the middle, Aristocrat at the entry level. If you look at the lowest level of Aristocrat to the highest level of unorganized, what you are saying is right, the difference is around 15% to 20%.
- Nitin Gosar:** So, despite they are seeing raw material inflation, which even we are witnessing there has not been any kind of price hike from unorganized sector?
- Sudip Ghose:** It is very difficult to understand the unorganized price hike. If there is a price hike, all companies get price list of the other companies. It is very difficult to figure out whether importer in Coimbatore is increasing the price or not..
- Nitin Gosar:** A bit more on this, does not it mean that the organized guys players, number 2 and number 3, which PSH they are waiting for you to take a price hike and then decide on what price hike they should

be doing or the overall industry is waiting for the competition, which they are seeing from the unorganized guys and want to do it for the price hike call?

Sudip Ghose: We do not look to unorganized. As organization, we have already taken price increase to protect our margins. I will not be able to comment on competition.

Nitin Gosar: Fair point Sir. Thank you.

Moderator: Thank you. The next question is from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna: Now if we talk about hand bags we believe you have crossed 100 Crores revenue in Caprese and that the brand has been growing at around 47% since 2013, while gross margins are higher can we get some sense on by when can we expect Caprese can meaningfully contribute to our EBITDA and secondly we are also having the value segment, I think in the recent interview Mr. Sudip Ghose had mentioned that we are also having value segment, the new launches starting at Rs.1000, which is cheaper than a regular hand bag as around 1800 bucks, so just wanted to understand the reasons for the change in strategy here, when we launch the brand in 2013 we were looking the position as a premium brand?

Dilip Piramal: No, nothing like that.

Sudip Ghose: There has been a shift between the unorganized and the organized both in luggage and in handbags. We are seeing a lot of traction of consumers who walk-in to hypermarkets. There is a market that needs to be tapped. We are balancing both so that we get the volume and start contributing meaningfully.

Karan Khanna: And Sir on backpacks is it fair to assume that the average realization on backpacks are around Rs.700 to Rs.900 for backpacks given that we sold around 3 million backpack in FY2018 and the revenues on backpack is around 15% to 20% of a revenue?

Sudip Ghose: We started about four years back when we priced aggressively. Over the years, we have taken the prices up and our contributions of backpacks are now actually matching to luggage to a large extent.

Radhika Piramal: What is your good name Sir?

Karan Khanna: Karan Khanna.

Radhika Piramal: From?

Karan Khanna: Ambit Capital.

Radhika Piramal: Thanks Sir. Nice questions. Thank you.

- Karan Khanna:** One just one more question on VIP Bangladesh just wanted to understand what could be your total capacity you have because I think the first plant was 70000 pieces and the other plant is 30000 pieces and there is another third plant that they come out with and what sort of utilization that we are operating at currently?
- Radhika Piramal:** We had a slight setback in Q2 in terms of some production disruptions including incoming raw material and so forth. At the moment, we just want to continue with the current levels for some time
- Sudip Ghose:** Bangladesh is going to face elections in sometime. We cannot comment really on how this would pan out.
- Karan Khanna:** One last question from my end, so again I think in the recent interview management mentioned that we are looking to grow export to around 25% of a revenue in four years' time from around 4.5% in FY2018, but that was in the US and European market, so just wanted your thoughts in terms of how confident are we of achieving this target especially given that over the past three or four quarters we are seeing a decline in our exports revenue?
- Dilip Piramal:** I think that this is a very broad generalization so at this moment I do think we can get into any details of that. Let us wait for another year before we can give you more concrete figures.
- Karan Khanna:** Sure. That is it from my end. Thanks a lot and best of luck.
- Moderator:** Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.
- Ankit Kanodia:** Thank you for taking my question and congratulations on very good set of numbers. Most of my questions have been answered. I just have one question, in the last concall you have mentioned that currency depreciation would be a big risk for Q2 as this is the time that it will hit the books, so if we assume that the exchange has remained same just a hypothetical thing and if crude price also remains at a comfortable level can we expect margins to stabilize at this level or we still face some pressure on the margins?
- Radhika Piramal:** We still face some pressure. September margins were lower than July margins. Therefore, Q2 had a bit of blended effect whereas in Q3 definitely we expect October, November and December to be more similar to September than July. There is definitely margin pressure in Q3 versus Q2 region.
- Ankit Kanodia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chintan Gupta from Way2Wealth. Please go ahead.
- Chintan Gupta:** Sir, thanks of the opportunity. I wanted to understand the competitive intensity of the industry post the entry of Xiaomi into the luggage sector?

- Sudip Ghose:** We do control more than 60% of market share in Indian context and competition has been trying to get into lot of channels where we are very strong.
- Radhika Piramal:** If you look at Q2 Safari results, we see a sales growth, but we saw that on the margins they were not strong. We have taken price increases, but selectively on our brands and overall our volume growth is a bit higher than our value growth so the product mix is moving. Bottom end of the segment facing an extreme price competition right now.
- Sudip Ghose:** Competition has launched new brand called Kamiliant, which is again at the same price point of Safari and there has been no price increases. Therefore, all put together, lower price points are becoming very competitive.
- Radhika Piramal:** It is slightly surprising that two members of the organized sector have not increased prices despite 10% rupee depreciation.
- Chintan Gupta:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Punit Mittal from Global Core Capital. Please go ahead.
- Punit Mittal:** Just one question with the extension from the previous question, you said there is a strong value migration that is happening from one brand to brand and you also mentioned that there is a strong volume growth on your side plus you will not compromise on the quality in the value for money segment, so can you give any colour on what is the margin differential would be in this segment versus other segment, I do not want the breakdown from your side I am just saying what can be broad margin differential in these different segments?
- Radhika Piramal:** Carlton is about 5% higher than average. Aristocrat and Alfa are about 5% less than average with VIP and Skybags in the middle.
- Punit Mittal:** So because our value for money brands are growing may be faster than the other segment and because there is intensive competition in these segments that is probably one of the reasons why there has been a margin pressure going forward?
- Radhika Piramal:** Our Carlton, Caprese, Skybags and VIP sales growth is robust. It is not that Aristocrat is only going so much faster than the other.
- Punit Mittal:** Understood. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Madhav B from Spark Capital. Please go ahead.
- Madhav B:** Thanks for the opportunity and congrats on good set of numbers. This is just an extension of previous questions, which was asked on gross margin ceteris paribus how much price hike would you require to cover the rupee depreciation and crude appreciation that you have witnessed in the recent past?

- Sudip Ghose:** 10% to 15%.
- Madhav B:** And considering that the growth momentum is so much in your favour do you believe that at least a part of this price hike would not be taken easily by or absorbed by the market in current scenario?
- Sudip Ghose:** It is difficult to say. Every category and every product has an optimum point. We really do not know the optimum point of a branded luggage. 4% to 5% price increase does not hurt largely, but anything in excess of 10% is definitely big.
- Madhav B:** Fair enough. Second I believe that there is no import duty on your Bangladesh import is that correct?
- Sudip Ghose:** Yes.
- Madhav B:** So, what happened on import duty in recent past, do not you think that increasing sourcing from Bangladesh will shield us somewhat from the import duty that we witnessed?
- Sudip Ghose:** Yes.
- Madhav B:** On labour is a limiting factor there to scale a production or anything else?
- Sudip Ghose:** Bangladesh is not an easy country to operate. There is quite a bit of limitation going for a large increase in that country.
- Madhav B:** And lastly the 10% to 15% gap you mentioned that is after accounting for the import duty hike or is it excluding that?
- Sudip Ghose:** It is including.
- Madhav B:** Great. Thanks and all the best.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments. Over to you!
- Sudip Ghose:** Thank you all for tuning in. It was very nice talking to you. We had a good quarter. We had a good first half of the year. As I mentioned, we are getting into a turbulence and we are aware of that. Hopefully, we will be able to take this journey. I cannot say smoothly, but with a little bit of bump to the end of the year. We started well and we will try to close it well.
- Moderator:** Thank you Sir. Before we close there is one question that has come up. Would you like to please address that and that is from the line of Sajan Didwania from Frontline Capital. Please go ahead.
- Sajan Didwania:** Thank you for giving me opportunity to take my question. First of all I will congratulate for your topline growth. I just want to know there is a cost of goods sold it is higher 50% of the sales, is it

due to any change in product mix like hard luggage had been sold more, soft luggage has been sold less, it is due to only the product mix is the same, but the cost pressure?

- Sudip Ghose:** It is purely a cost pressure due to rupee dollar relationship and import duty all put together.
- Sajan Didwania:** Another thing is that employee cost also has increased by approximately 6 Crores compared to the June quarter?
- Sudip Ghose:** Employee cost?
- Sajan Didwania:** Yes.
- Radhika Piramal:** We are adding to our sales and distribution strength to drive this growth in value and volume. Our incremental cycle kicks in July.
- Sajan Didwania:** But if you see as a percentage of sales actually it is still the field is likely less than corresponding quarter in the previous year?
- Sudip Ghose:** Employee cost is more or less fixed.
- Sudip Ghose:** The increments hit in this quarter.
- Sajan Didwania:** One more question just I wanted to know the backpack segment is giving a high growth of somewhere around 30% as you said in the last conference call, can I get to know what is the growth in backpack segment sales in current quarter and the luggage segment?
- Sudip Ghose:** It is similar. Market actually does not really change much. Growth for this quarter has been quite similar to the previous quarters.
- Sajan Didwania:** Thank you very much Sir.
- Moderator:** Thank you. One last question from the line of Rajamohan an Individual Investor. Please go ahead.
- Rajamohan:** Thanks for taking my call and congratulations on good set of numbers. Actually there has been a lot of talk on gross margin challenges in the second half, what I wanted to understand is below the gross margin you have personal and other expenses, do you think you have slightly better leverage on personal and other expenses in the second half for you to sort of ameliorate the pressure on gross margins?
- Radhika Piramal:** No, because we are not a very short-term company and we have had an excellent one of sales growth and until the rupee depreciated excellent margin growth. Therefore, it would be very short-term to reduce our fixed cost and reduce our organization capability for few quarters' margins. In the long-run, we have demonstrated ability to take price increases because of our brand. It has been a tough quarter in terms of 10% depreciation of the rupee and increase in employee cost. There are margin pressure, but let us not take too many short-term decisions to protect one or two quarters

margins. We will find a way back to profitable growth and let us close the call. We ended our calls. We have made a closing remarks and we are back to the Q&A.

Dilip Piramal: Radhika, I just wanted to say something that we are actually having a most profitable growth where is the pressure on finding our way back. This quarter is the highest profitable growth we have had and what background are these questions being asked I cannot understand.

Radhika Piramal: They are being asked in the context of the upcoming margin pressure that we have.

Dilip Piramal: Yes, we will do that next quarter.

Sudip Ghose: Thank you everyone. Thank you very much and see you in next quarter again.

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