

Conference Call Transcript

VIP Industries Limited
Q4FY16 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 Limited Q4 FY2016 Earning Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participants' 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 any assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I would now like to hand the conference over to Mr. Shradha Sheth of 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 Q4 FY2016 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 Piramal for a initial comments post which we will open the forum for Q&A. Thank you and over to you Madam.

Radhika Piramal: Thank you so much Shradha. Thank you all for dialing in and welcome to VIP industries Q4 call. I hope that many of you are familiar with the company and that you would have received the numbers in advance. I will jump right into it. I will start off with the numbers then I will discuss little bit about the industry, channel brand and then my thoughts on the year ahead.

So starting up with our sales figures in Q4 we had a 12% growth on 275 Crores up from 246 Crores in Q4 of 2015-2016. The 12% growth was primarily led by volume growth as the volume growth was almost 10% and the price growth was only 2%. This is due to the changing nature of our sales. We are adding a lot of backpack as a category into our sales. Backpacks sell in higher volume and they have a lower price point. So actually on our luggage business our price growth has been more than 2% but because the average selling price point of a backpack is less than a luggage and because we have sold so much backpacks overall for the company in Q4 the volume growth was 10% and the price growth only 2% leading to a very satisfactory 12% growth in sales.

On an annual basis our sales was 16% growth 1216 Crores up from 1048 Crores in 2015-2016 again a similar story of volume growth really leading the way. Our volume growth was 12% and price growth was 4%. Coming back to Q4 in gross margins this is really where we have seen some improvement. Our gross margins were 48% of sales compared to 46.4 in Q4 2015-2016 that is 160 basis point improvement and I will say that is the driving force between improvements in EBITDA. You would have seen that our EBITDA is 8.2% of sales in Q4 versus 6.3% sales in Q4 of 2015-2016. So that is almost 200 basis point improvements mostly from the gross margins, little bit from our manpower cost. We actually spent more on advertising in Q4 than we did in the previous year. So this improvement in EBITDA is certainly not at the cost of

advertising. Overall leading to very satisfactory results. We have 19.2 Crores of PBT up from 12.07 Crores in Q4 of the previous year. All the figures have been saying I should have mentioned earlier on a consolidated basis the difference between the standalone and consolidated is VIP Bangladesh, which has also had a good quarter and posted these results.

You see that profit after tax has not grown as much as a profit before tax and that was due to the relatively lower tax paid in Q4 of 2015-2016 and that is where we are. So I will say good margin improvement. Let me comment on the reasons behind that, the rupee did depreciate against the dollar but not as much. We took price increases and finally the slowing commodity cycle is coming through on our margins. I will say if anything we have been, our lag has been bit more than many other consumer goods companies and that is because we mostly import from China. We have a high lead time therefore inventory is quite high, this year our inventory is about 130, 135 days. So it takes some time for lower cost to flow through in Q4 versus first quarter flow through. We have had a reduction just a slight reduction in our buying cost in dollar terms of our soft luggage imported from China that is because on their side the Chinese manufacturers are facing less demand especially from European markets, also their raw material prices have come down somewhat both for polyester, nylon and the metals. In addition to that ocean freight is at its lowest levels that we have seen in the last four or five years, so all of this is helping our margins. Also its not only soft luggage margins that have slightly improved the hard luggage margins improved considerably. Now hard luggage is a smaller part of our sales but actually improvement in our luggage margins is much better than soft luggage and that is because finally the plastic prices have really come down. One note of caution for our company going forward Q4 hard luggage margins were good but going forward we have several manufacturing units for hard luggage in India but one of them is in Haridwar and this factory was started in 2006 it ended its 10-year period in March 2016 which means from April 2016 onwards our excise exemption has lapsed. So that will have some effect on the hard luggage margin going forward in the current year, having said that I am hopeful that the decline in plastic prices will mostly offset this increase in excise although the increase in excise is a bit more than the reduction in the raw material cost. So that is my comments on margins, it was really a good quarter. We hope to maintain it or improve it in Q1. I will say that we have a good opportunity to do so assuming the rupee remains at 68 or less. The rupee was behaving itself quite well there was little more volatility in the last three weeks. Let us see what happens through June. So that is on the margin side.

On the sale side for the industry I will say 12% sales growth is good. It is not amazing the overall demand scenario is not fantastic. This 12% sales growth I will say has come by us taking very active steps in channel management across all major channels and maintaining our market share. The fastest growing channels remain similar as what they have been for the last two or three quarters modern trade is growing fast. E-commerce growing very fast but it has a very small base. CSD we have gained a little bit of market share and I will say we are growing in line with Samsonite, American Tourister; Safari is growing a



bit faster than us. I must say that industry on a level I will say that we have fairly improved our market share again Samsonite, American Tourister but overall Safari has gained some market share from both the two big branded companies in the luggage market. They are offering quite aggressively priced products and while it is not a major brand it is putting some pressure on the value segment and we have to see how that competitive pressure plays out for the year ahead. In our dealer channel we continue to have a sort of structural issues. The new consumers coming to cities prefer to go to modern retail outlets, exclusive brand stores, hyper markets, department stores in malls or e-com rather than visiting a traditional dealer outlet, this is always slightly problematic for VIP because this is our largest sales channel. So we are doing a number of initiatives to reactivate growth in the dealer channel. Unfortunately the marriage season has not really supported us. The dealer channel especially in Q1 I am referring to Q1 not Q4 that is the current quarter luggage sales are typically driven a lot by lagan season the marriage season and this year the date for last venue that from before and we have planned a couple of promotions to offset it but they might not be taking the full weight of the challenge.

So to conclude on the industry there is good level of competition from Safari at the value end. I will say we are maintaining our market share or fairly growing it against American Tourister in the middle end and again Carlton is growing decently well at the premium end although it is still a relatively smaller player compared to Samsonite. I believe that the growth rate of Carlton is higher than the sales growth of Samsonite and going forward for the year I would expect our margins to either maintain or grow but on the sales side unfortunately due to the lack of marriage dates in the current quarter and also due to the fact that in 2015-2016 we had several good institutional orders including one larger order from the Haj Central Committee of India unless we are able to get meaningful large orders on that scale there may be a bit of sales pressure for the year going ahead.

Final comment on the balance sheet everything is in order. Our inventories are slightly increased that is because I want to take a bet on the season ahead and we will be able to bring them back in line let us say by the September close. On debtors also our trade receivables went up just slightly but nothing of concern and it is back in order. We received and had good receivables in April and with that I would like to turn over to questions.

Moderator: Thank you very much madam. Ladies and gentlemen we will now begin the question and answer session. We have first question from the line of Saurabh Jain from Aries Stock Traders. Please go ahead.

Saurabh Jain: Good afternoon Radhika. I have few questions. Is Caprese completely manufactured in China?

Radhika Piramal: 80%.

Saurabh Jain: I understand that soft luggage is 70% of our sales and 90% is actually outsourced from China and Bangladesh so just a longer-term strategic



question is there any possibility of action manufacturing this in India because manufacturing outside opens this up to forex risk as well as disruption in supply.

Radhika Piramal: We are trying. The difficulty is there is no raw material cycle or vendor base here in India. So a luggage essentially is made up of fabric for the outside and the inside and then trolley wheels lock, it is not a very complicated product but none of these items we design them to our specification and then VIP is the only customer and so there is no vendor really that is willing to set up a factory just to make this kind of item versus China where the whole world goes to shop for luggage and so you really have a very good vendor base. So that is the underlying issue. As you can imagine we given our market leadership position in India we are in China we do not necessarily have exclusive relationship with our vendors but in India we would want to do so. So in a nutshell it is possible that if the business grows we could slightly increase some sort of vendor base in India but China is going to remain the majority source of products for sale in our company.

Saurabh Jain: How many vendors are we buying soft luggage from China?

Radhika Piramal: We have a panel of I would say about 15 of which about 7 the main ones.

Saurabh Jain: It would be right to assume that even the competition would be actually buying from these vendors.

Radhika Piramal: Some of them, not all.

Saurabh Jain: Right so you are saying also that capability is not there to manufacture in India, it is not necessarily about cost.

Radhika Piramal: It is definitely not about cost it is actually about capability and the other thing is even these vendors if they had to purchase they would purchase a raw material from China in dollars right. So you are not really getting away from the forex issue. I do understand the concern and we are continuously trying to develop vendors but our progress has been slow.

Saurabh Jain: Just your thoughts, you have got Hrithik Roshan as the new Brand Ambassador for VIP so what is the kind of traction that you are seeing over there.

Radhika Piramal: Thanks for the question. I hope many of you may have seen our new VIP ad, for which we chose Hrithik Roshan in sort of James Bond way with a very unscratchable glue polycarbonate bag from VIP. The ad has been really well received. I am pleased to say that I think I mean I have been saying on many of the calls that VIP brand sales growth has been a bit slow Skybags, Carlton, Caprese these have been driving the growth and I think it is partly because we had some definitely some room for improvement in our VIP advertising in the last three or four years and I believe that this ad is really much better. We will wait to see what the sales and market research for the year ahead has to say but qualitative feedback has been excellent.

Saurabh Jain: So any feedback from the customers, great response for VIP brand?



Radhika Piramal: It is honestly too early to say, it is six weeks since we launched the campaign, we have this association for at least a couple of years. So it will take a bit more investment before we can really tell but the early signs are positive.

Saurabh Jain: Any number you would like to give on Caprese what is the kind of sales it is at currently.

Radhika Piramal: I do not give the specific sales but I can say that I generally say that it is only 5% of our company turnover at this point but it has been going well and the gross margins are better than luggage and I am very confident that we launched this brand only three years ago we are in the top 5 handbag brands of India and next year we have budgeted that on a standalone basis this brand should be at breakeven taking into account advertising and corporate overhead. I will say that is pretty good within five years of launch. Caprese sales are not very big right now but the gross margins are better than luggage and we are seeing some traction. So there is really good potential here and I think my long-term vision for the company was always to how can we make handbags as much as luggage. Now as much as luggage I think that is going to take a decade may be but how do we get Caprese to first 100 Crores and then 300 Crores in the next let us say five years from today that is very much a management goal and when that happens it will be really good for the company.

Saurabh Jain: There is a big opportunity no doubt about that.

Radhika Piramal: Gross margins are what encourage me right now.

Saurabh Jain: Just a last question on the average realization for bag put by us how has that panned out say in the past five years or even 7 to 10 years.

Radhika Piramal: I am sorry but it is a little good question and I would not want to give a wrong figure. I will make a note of it and if you right to me I will get back to you with this specific.

Saurabh Jain: I will do that but just to get a sense I am as the selling price of a bag what it.

Radhika Piramal: It is more than double I mean.

Saurabh Jain: In the past say five, six years.

Radhika Piramal: Definitely because of the continued rupee depreciation I mean think about the rupee is depreciated something like 25% right over the last five years and we have been, yes, our margins were affected there are still may be 5% less than our peak margin. I mean 500 basis points less than our peak margin but we keep trying to get back there. So we keep taking price increases.

Saurabh Jain: But you are seeing even at the retail the MRP for the customers it has doubled.

Radhika Piramal: I would prefer to look at my numbers and figure it out but I feel it will be that.



Moderator: Thank you. We will take the next question that is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Hi, Radhika congratulations on good set of numbers. I just wanted to know you mentioned that we are gaining market share versus Samsonite and American Tourister. So in which channels are we gaining market share?

Radhika Piramal: I will say across all four channels, which cover the main market. So the dealer channel, then there is modern trade, which is department store and hypermarkets then the CSD, and then there is retail stores. Retail stores have to look at the channel as a whole because Astra will be next one of the stores in the same cluster. So all of it I will not say significant like some 10% movement or something may be 2%, 3% but it is encouraging. So all channels so one channel where that is not happened is e-com, I will say that we have some catching up to do that.

Tejas Shah: Any insight you can share what is working for us versus them.

Radhika Piramal: I think just our marketing mix has been effective in the last year particularly on Skybag. We launched a lot of backpacks so may be two years ago or three years ago American Tourister would have been stronger than Skybags on backpack and we have really come forward with two consecutive excellent seasons of merchandize that is in 2015 and then again now just launched in January 2016. So that is one big thing. The second is little bit of operations management in hypermarkets. I believe we are fairly better with our fill rates and our stock. I think our advertising campaigns for Skybags has been successful. We took on Varun Dhawan and last Diwali we had one ad that promoted him with polycarbonate luggage and then this January we had another ad with him promoting backpacks, just that whole combination versus American Tourister mix of advertising and product placement etc. That is not one thing it is all put together.

Tejas Shah: Any particular sustainable change you believe that will help us to continue this trend, be it supply side issues that you would have solved or any marketing issues that you had figured out but it took time for us to resolve.

Radhika Piramal: It actually just comes down to management capability and we hope it is sustainable. Of course, our competitors are also competitive and will fight back, so it is an ongoing tussle. I think we have a good team with good capabilities and continue to gain share.

Tejas Shah: What proportion of our FY2016 sales came from backpacks?

Radhika Piramal: 12%

Tejas Shah: How the margins in the segment versus luggage?

Radhika Piramal: Just slightly lower.

Tejas Shah: But higher than Caprese.

Radhika Piramal: No Caprese is higher than luggage. So it is handbags then luggage and backpack.

Tejas Shah: So are these backpacks breakeven as a category.



Radhika Piramal: Definitely more than that I mean they really added good amount of sales value.

Tejas Shah: Third question is the highlight of this quarter result were the gross margin improvement and if I recall around the same time last year you were complaining that unlike other consumer sector companies your suppliers were hoarding all the benefits of deflationary trend.

Radhika Piramal: I pushed them hard enough since the last call.

Tejas Shah: So are there any structural changes be it in sourcing part or be it in hard luggage.

Radhika Piramal: No there is no structural change. We did get some price reduction finally both on plastic for hard luggage and then on the finished goods for soft luggage and then we started getting from August of last year onwards but as I mentioned our inventory levels are quite high because our lead-time from China is quite high. So it takes a little bit of time to flow through.

Tejas Shah: So you believe that will be able to protect this kind gross margin this year at least.

Radhika Piramal: Certainly striving for it, if the rupee goes up to 68 it should not be a problem beyond that we can also take a price increase which is currently in our plan. So I think so yes.

Tejas Shah: Any price hike we have taken in recent quarter?

Radhika Piramal: No we took in November last one was in November 2015 not in January, February, March no.

Tejas Shah: So that was the 5% price hike.

Radhika Piramal: Yes that was last November but the other thing we do is we also launched new merchandize in January for both backpacks and then in April is for our major Q1 season and when these new ranges are launched obviously they take into account the most latest pricing right. So they are launched at higher levels so it is not just about price increase it is just a bit about managing your assortment.

Tejas Shah: Lastly any big institutional order in pipeline if you can share?

Radhika Piramal: I wish so but I must share with all of you on this phone call that the large Haj tender, which we won last year we know for a fact, is not going to be repeated this year we do know that. It is not that we are going to lose the tender. The tender has not been happening again.

Moderator: Thank you. Next question is from the line of Rohit Chavan from Vallum Capital. Please go ahead.

Rohit Chavan: Thanks for taking my question. My first question will be can you throw some light on how much is the market of our each and every brand and how much market share we have captured in those particular brands?

Radhika Piramal: We do not actually give specific channel or brand wise retail. Overall I can tell you that for the branded if you take a very narrow definition of



the market which is let us say may be four players that is us, Samsonite, Safari and Delsey then I think we would be having perhaps 48% or 50% market share and we are the largest and then if you add in all unbranded then I would say that perhaps we have 20% market share. This is for the entire luggage market including backpacks all segment.

Rohit Chavan: So I can understand that we do not want to any particular brand details so I can assume that we would not give any volume numbers that how much we have sold in Skybags and how much have we sold in Caprese and like. My next question will be can you tell us something about what can be or what can be our trigger going forward that would change the profitability of the company, if you can highlight on that and how do you foresee your overall advertising expenditure, are you going to reduce rate or you going to increase rate and what is your thought on these things?

Radhika Piramal: Thank you it is a good question. I will say that in the year 2015-2016 I mean I know it only shows a 16% sales growth for the year and 12% sales growth for the quarter but in the current market demand situation I think it is quite good and I am confident we get some share. So I feel some sales momentum and I do not want to lose it by cutting back on advertising to try and improve profitability. Our advertising has been between 5% and 7% of sales for the last two to three years and the idea is to continue with that and just try and make it more effective by having better ads and I think you would agree with me that the last round of ads from Carlton, Caprese VIP and Skybags have been quite good. So how to improve profits is actually just by improving sales and little bit, little bit keep trying to maintain or increase the margins, so it is really to focus on sales and because in our company the other costs are well in control and so any increase in sales the growth margin on that sales is close to the bottomline. I mean our costs are in control but at the same time fixed overheads do keep increasing in India at 10% to 15% a year. So you see that this year we had better sales. The sales growth of 16% is there is a big difference between 16% and 12% in terms of the impact on profits.

Rohit Chavan: That is right. So I have one more question and I think the first analyst also asked this question. We outsource around 90% of our soft luggage from Bangladesh and China combined. So can you give breakup as to how much we get from Bangladesh and how much?

Radhika Piramal: Bangladesh is still around 10%. So let us say China is 80%, Bangladesh is 10% and India is 10%.

Rohit Chavan: Going forward say next three years how this ratio would change and what are your plans in this soft luggage thing. Do you see Bangladesh outsourcing go to say 50% and China coming down?

Radhika Piramal: Even if it does the ratio does change, it would not impact VIP India's margins because Bangladesh gets its benchmark pricing from China, which remains the most competitive. I cannot emphasize this enough despite the rupee depreciating China remains competitive. It is a testament to their excellence in manufacturing that they keep responding to their customers lower



and lower costs. It may shift because obviously we want to grow the Bangladesh factory and for the first year our EBITDA margin there is decent and that is Bangladesh's EBITDA even though selling at the same prices what China is buying. So net-net it is a gain for the company even if let us say the Chinese proportion came down from 80% to 60% and Bangladesh went up it would not change the soft luggage margins of VIP India.

Rohit Chavan: That is fantastic. Can you tell us something about what could be the impact of GST on our industry and we have been party to that.

Radhika Piramal: GST would be a welcome move from our perspective. The main gain actually would be more to do with logistic and network distribution than any sort of tax for us because we pay custom duties on our import and then we have 25 branch warehouses and we pay local state sales tax. So we could reduce some of the 25 branches perhaps to 16 or 18, but at the same time we cannot just make it one central point because the customer delivery timeline would change. So it is not a big game changer for us it can save a little bit of operating expense and reduce some staff by reducing number of top points.

Rohit Chavan: While you earlier said that about the question I asked about the Chinese outsourcing and Bangladesh outsourcing, so I would like to know if possible if you can tell how these contracts are decided whether we give short-term contracts or raw material sourcing contracts whether these are what can be your long-term one-year contract.

Radhika Piramal: I will be honest this is not a specific contract based business; it is more of a relationship based business. So with most of our key suppliers we have been working with them for more than five years but the specifics of each transaction is actually transaction-to-transaction. So there is no contract and we have complete flexibility to change from one vendor to another and this is how we maintain the competitive pressure. So I may have been working with one factory for five years but I do not have any commitment to them beyond the order I place next week.

Rohit Chavan: That is exactly what I am looking at. So thanks a lot madam for answering all of my questions and best of luck to you for your future products.

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

Sandeep Patel: Good evening Radhika. Thanks for taking my question, just one small thing. The proportion of PC polycarbonate luggage increases; does it impact margins?

Radhika Piramal: In a positive way, yes.

Sandeep Patel: Do you see that happening or are you actively promoting like PC luggage?

Radhika Piramal: The polycarbonate luggage has been good, unfortunately the polypropylene decline has been awful so let us say from January till practically now the polypropylene decline has been unbelievable like 20%, 30%. So it is



offsetting the growth in polycarbonate. Now every year I say there has to be some flaw and every year we find a new flaw for polypropylene hard luggage sales. At some point it will become 0 and then all polycarbonate growth will keep coming. So there is a lot of growth in polycarbonate, fundamentally it is an attractive product to the customer. It has strength of hard luggage plus looks and convenience of soft luggage. So it will be a good thing if it keeps going.

Sandeep Patel: Any breakup on polycarbonate and polypropylene?

Radhika Piramal: It is now 50-50.

Sandeep Patel: Total hard luggage would be how much?

Radhika Piramal: 20% of our sales.

Sandeep Patel: Thank you so much.

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

Tejas Shah: Hi Radhika, couple of followup questions. Any comment on unorganized sectors, unorganized participants in the market and how they are doing much sales branded players?

Radhika Piramal: Last year I saw they were not doing as well as the branded players, but in the last few months I have to revise my opinion, I think they are doing better again. It is possibly because the rupee has stabilized right so with the slightly less volatility then trades somehow willing to import from China. So we as I mentioned earlier we are seeing a lot of competition from the bottom end whether you call a private labels or small regional brands it is there. The Chinese imports, non-branded Chinese imports or labeled Chinese import has a lot of competition.

Tejas Shah: So what is the source of competitive advantages is it only value proposition is price?

Radhika Piramal: Brand, that is it.

Tejas Shah: So people buy those brands or are it just a price point they buy?

Radhika Piramal: You mean their value proposition or our value proposition.

Tejas Shah: Their value proposition.

Radhika Piramal: Price.

Tejas Shah: So let us say in not the near future but structurally if China's competitive advantage as a sourcing base goes down and it moves again in favour of people who have manufacturing facilities in India, should it help all this branded player in longer run?

Radhika Piramal: Yes, that would help us yes.

Tejas Shah: But it would not happen as you mentioned the Chinese advantages still long way to go?

Radhika Piramal: Yes.

Tejas Shah: Second for last couple of quarters we are seeing at present the air



passenger traffic is showing very high growth and it is hard to believe that that is largely driven by business travel as well so any rub off in Carlton number because of this?

Radhika Piramal: I have to say specifically I mean look we had a fairly good run of results. I would say Q2, Q3, Q4 has all been good, so obviously it is having some impact but I am not sensing there is a great demand on the ground I am just not I mean I think we are working hard, need channel to gain share and are fighting with competition. I do not think the market growth is fundamentally more than 10% or 12% to 15%.

Tejas Shah: Lastly how do you amortize all these brand ambassadors cost?

Radhika Piramal: We expense them. We do not amortize them.

Tejas Shah: Over a period of 10 years contract?

Radhika Piramal: Yes 10 year contract.

Tejas Shah: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Dhaval Dame from Equirus Securities. Please go ahead.

Manoj: Manoj here. I just wanted like a followup on GST. Basically when we look at the other categories in the consumers so suppose if currently like whatever figures you gave about the market share, so currently I think around 60% to 70% of the total market would be captured by this unbranded player, so if suppose like is there any case like there is a tax revision from them?

Radhika Piramal: Definitely there will be under invoicing on the custom duty but there will be under invoicing the buying price to and then paying less on custom duty, which is 20%. So custom duty on luggage is 20%.

Manoj: So if GST comes into effect so like there will be couple of percentage benefit for your company and maybe some higher tax burden on unbranded players which will narrow down the price cap?

Radhika Piramal: That will be welcome move. Let us see what happens now, it has been like I have to sort of focus I can achieve in the few months ahead rather than.

Manoj: Just wanted to understand like can you see any shift happening if this comes true?

Radhika Piramal: If it does happen I will be the first to tell you in the call that this has what happened.

Manoj: That is all, thanks a lot.

Moderator: Thank you. Next question is from the line of Arjun Ashar, Individual Investor. Please go ahead.

Arjun Ashar: Is there any scope for brand expansion for Caprese into some other accessories?

Radhika Piramal: At this point I would rather it is now all the price points of the hand bags because right now we are selling a fairly narrow price band of let

us say Rs.2500 to Rs.4000. So we have not even gone up from 4000. So I would prefer to focus on that before thinking about new categories because launching a new category takes some time. We have to think about it get the right people etc.

Arjun Ashar: Is Skybag profitable at the net level?

Radhika Piramal: Yes.

Arjun Ashar: All right because you have implemented two brands one, two brands in the last three four years?

Radhika Piramal: Three brands Carlton, Caprese and Skybags.

Arjun Ashar: So I was thinking in terms of extension getting into other accessories?

Radhika Piramal: I think we have to add some more juice in the existing level.

Arjun Ashar: Thanks a lot.

Moderator: Thank you. Next question is from the line of Rohit Chavan from Vallum Capital. Please go ahead.

Rohit Chavan: Thanks for taking my questions again. One question that I want to ask is I would like to understand our dealer network and how it works and whether it is formal and how the dealers remain common between the three formats say VIP, Carlton, Caprese and Skybag or are we appointing any new one hand, if you can...

Radhika Piramal: We have about 1000 direct dealers in our network of which I will say the top 100 are meaningful, the top 400 and then the balance 600 and primarily in these in the dealer channel we sell three brands that is first is VIP, then Skybags and then Alfa which is our value line that competes with Safari and the dealers are they have kind of widespread geographically. So they would definitely be in let us say the thousand dealers would be in may be 250 towns up to 400 towns, but obviously I will say the bulk of them will be in 200 towns and our share of branded luggage is very good in these dealers. Obviously they buy from everywhere else also but mostly they have from our company VIP, Skybags, Alfa and then they have imported Chinese luggage and maybe little bit of American Tourister, that sort of this typical market.

Rohit Chavan: Madam also there are channels various channels through which we sale our products, so can you give percentage breakup that how much it from the dealers, how much it from e-commerce?

Radhika Piramal: I mean e-commerce is too small; it is less than 5% right now. For these dealers they are 30% plus of our company's base and they are really the bedrock on which the VIP grew and this is how we started our company and grew its advertising in our dealer network and the challenges for the dealers and for the company the new customers when they let us say move from their hometown to maybe Bengaluru or Delhi for a job or something they are more likely to go to a branded showroom or a mall than but the dealers are losing the traditional clientele because they remain very excellent shop keepers



and they have the relationship in their communities. So they are holding onto the existing clientele but they are not getting new customers, so that is the challenge. So in the dealer channel, the challenges hardly help our dealers grow and perhaps become more branded and look maybe how do we make them into franchisees, so they get the modern customer. It is not so much and then how do we beat unbranded luggage, it is not so much again branded luggage that is not the issue there in the dealer.

Rohit Chavan: Can you comment anything on what would be our volumes growths say going forward in say three years or five years if you have any?

Radhika Piramal: No I cannot comment on that.

Rohit Chavan: Thanks a lot and all the best.

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

Sandeep Patel: Thanks for taking my question again. Just wanted your thoughts on competitive strategy, you mentioned Safari is leading competitive prices at the lower price band and so if you could throw some light if that reduces your elbow room to play the market was one and second for new brands for people like Safari who are trying to grab market share, is the e-commerce business helping them having traditional strength of the business helping distribution but e-commerce basically reduces the role of distribution network?

Radhika Piramal: Quickly I will tell you so Safari they had their results, recently they posted good sales growth and so it is putting some pressure. Fortunately we are quite a good brand portfolio so we have Alfa and Aristocrat which are both value brands that the company has and we can use these very effectively to combat Safari because I am without affecting let us say the brand value of VIP and Skybag. So it is good that we have these brands that can fight against Safari and then your point on e-commerce it is true that let us say I will say that our competition has grown faster than as an e-commerce that is Safari also American Tourister partly because they do not have such a big dealer network channel sales to protect. So let us say in the event of a conflict between and there are frequent conflicts between the pricing strategy of a given e-com player and any retailers whether they are a dealer or whether they are a hyper market chain, there is a lot of conflict. So in the event of this conflict, VIP Industries as a market leader and with the biggest base of distribution often we may choose to go with our existing channel partner rather than a new e-com player, which is not the same pressure that Safari has to protect the base. Having said all of that, the latest policy directive from the government should help the large brand more than up and coming players because they are going to, it is the government I think effort is to reduce the sort of really rampant in discounting which was causing the conflict.

Sandeep Patel: Right but one would assume that strictures like that would be temporary and Indian entrepreneurs are very resourceful so we find ways around such...

Radhika Piramal: So we will also find ways to improve our presence in e-com



so that is the must, we are working on that.

Sandeep Patel: One last thing so should I interpret your advertising cost has also a way to improve your e-commerce sales or rather defensive...

Radhika Piramal: Our brands are our biggest asset somebody else asked what is your differentiation or how do you bring value, it is through our brands that commands the higher prices in the market which gives us gross margin that in turn can support more advertising right so it is not to do with e-commerce do with the brand value creation and the sales growth of our company including e-com but not limited to e-com.

Sandeep Patel: Thanks.

Moderator: Thank you. Next question is from the line of Saurabh Jain from Aries Stock Traders. Please go ahead.

Saurabh Jain: Just some follow up questions Radhika. Could you give the number of pieces of luggage sold by us in FY2016?

Radhika Piramal: 6 million.

Saurabh Jain: 6 million rights and just a sense on what this number could have been maybe say again 5 or 6 years back?

Radhika Piramal: I will have to check 5 or 6 years back.

Saurabh Jain: I can drop you an email and if I can get an answer to that because I was just going back and looking at the numbers five or six years back the sales was about 600 Crores which has moved to 1200 Crores and you also mentioned that the realization itself has also doubled in this period of time, so wanted to get a sense of this?

Radhika Piramal: Let us do a one-on-one on this if you want to like taking up a whole group of people for your model okay.

Saurabh Jain: That will be great and also just get a sense of the size of the opportunity the number of luggage pieces sold in China or if you would have ...

Radhika Piramal: No I do not know, luggage pieces sold in China I do not know.

Saurabh Jain: Thank you.

Moderator: Thank you. Next question is from the line of Dhananjay Bagrodia from Enam Holdings. Please go ahead.

Dhananjay Bagrodia: My questions were answered. Thank you.

Shradha Sheth: Radhika just two questions from my side. Just wanted to check we had lost some market share in some of our key channels like CSD so we have completely regained?

Radhika Piramal: Not completely but we are on track. So we gained some and we have some more ways to go.

Shradha Sheth: Okay secondly just wanted to get your sense on the new brand, which has been launched by American Tourister?

Radhika Piramal: It is adding to the pressure on the value end, I will say as this point Safari is the bigger competitor than competitive than Camel but they are operating at the same price points so in some ways for our responses will sort of affect both of them. Camel is working at the same price point as Safari, which is essentially the same price point as Alfa and Aristocrat. It is a bit lower than VIP and Skybags.

Shradha Sheth: So any incremental strategies for Alfa and Aristocrat?

Radhika Piramal: We are working on it.

Shradha Sheth: Okay fair enough. So we would like to thank the VIP management for giving us insights on the result and we would like to thank the participants for being on the call and Radhika any closing comments from your side.

Radhika Piramal: Thank you for dialing in and for continued interest in our company. Sales growth was good in 2015-16 little bit of margin expansion in Q4 especially is quite encouraging. I do expect to maintain or even perhaps attempt to grow our margins in 2016-17. I foresee some sales pressure on 2016-17 for two reasons one is the absence of the large institutional that we had in 2015-16 and the second is the very low number of marriage dates and the third is the competition at the value end. So bit of pressure on the sales side but remain positive and confident on the margin side for the year ahead. Thank you.

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

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