

Conference Call Transcript

VIP Industries

Q1FY20 Results

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Corporate Participants

Mr Dilip Piramal

Chairman

Ms Radhika Piramal

Executive Vice Chairperson

Mr. Sudip Ghose

MD

Mr Jogendra Sethi

CFO

Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the VIP Industries Q1 FY2020 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Miss Shradha Sheth from Edelweiss Securities Limited. Thank you and over to you Madam!

Shradha Sheth: Thanks Lizann. On behalf of Edelweiss, let me welcome you all to the Q1 FY2020 earnings call of VIP Industries. From the management today, we have Miss. Radhika Piramal, Executive Vice Chairperson, Mr. Sudip Ghose, the Managing Director and Mr. Jogendra Sethi, the CFO so without any further ado, I will hand over the call to Ms. Piramal for her initial comments post which we will open the floor for Q&A. Thank you and over to you Madam!

Radhika Piramal: Thank you. Good evening everybody and thank you for dialing in. Special thank you for those who could attended our AGM, which was held earlier this afternoon. There is quite a bit to discuss and there is also a change in the accounting standards. I would like to talk for about 5 to 10 minutes about results, sales, gross margins, expenses, exceptional loss and talk briefly about the change in the accounting standards with changes in few line items in our P&L. Thereafter, I will turn to Q&A.

So let us start first with the revenues. I will refer entirely to consolidated results as everybody on the call knows already. The difference between consolidated and standalone is our Bangladesh operations where we have four companies which are 100% subsidiaries. Our consolidated revenues of Rs.567 Crores which is a 9% growth up from Rs. 519 Crores in Q1 of last year. In the current market environment, we are quite pleased with this 9% revenue growth. It is short of the target we had set for ourselves at the start of the year. By looking at decline in air travel and also looking at the overall decline in the market sentiments, looking at decline in footfalls and sort of consumer confidence, we are quite pleased with this 9% revenue growth. It comes because we have quite a good healthy balance of all different channels. Our distribution channels are a good mixture of general trade, which are dealers and distributors. It is less than our expectations and our own retail stores that were quite slow too. We have modern trade that continue to grow well not as well it were going earlier. 9% is much lower than the revenue growth that we had last year and even during Jan to March quarter. Modern trade continued to grow although lower than before but they continue to add new stores so that helped us. CSD actually did quite well in Q1 so that was helpful in terms of contributing towards 9% growth and e-commerce also continues to grow. We have healthy balance of wide portfolio of channels which helped us to achieve this revenue

growth. It would be premature for me to give some guidance for the future. There is no sort of significant pick up in July as compared to April, May and June, so the current slow environment seems to continue at this point, I cannot say how long it would persist. So having said all of that, I want to talk about a little bit of our competition, brands and market share.

Our revenue growth was at 9% of which our volume growth was about 7% and the rest was from price growth. You will see that margins have stabilized compared to Q3 and Q4 last year.

In terms of our brands, we are actually managing well. We have launched a new logo for VIP. New advertising campaign we ran in Q1 and new product mix are all received quite well. VIP brand did better than usual which is also helping in achieving 9% in the current scenario. Carlton and Aristocrat continue to grow still faster than VIP and Skybags. Carlton is relatively a small brand and making good inroads into the premium section. Aristocrat is an affordable brand and therefore remains a preference to consumers at the time of subdued spending. Caprese and Skybags with backpacks and handbags continues to do well.

In terms of competition, we feel that market shares have been more or less quite stable in April, May and June. It is early for us to comment and we can comment in more detail perhaps in the next quarter but we do not see any meaningful change in the market shares.

We have resumed better margin profile in this Q1 and our margins in Q1 this year are very similar to our margins in last year which were significantly better than our margins in Q3 and Q4. This is due to number of reasons primarily we took some price increases starting in March secondly we launched a number of new products in April, May, June everybody knows that April, May, June is the main season for travel, one of our most important quarters from a sales and profit's perspective. We always launch new products in April and when we launch these products, we kept pricing in mind and the rupee had further depreciated and we kept that costing in mind so we launched products at a better margin profile. The final factor, we were able to negotiate some for the cost reduction with Chinese suppliers because the situation in China is quite challenging for Chinese suppliers who are facing reduced orders from the US and they are keen for increased orders from customer from India, Europe, etc. I am very pleased to say that we have achieved better margins and we expect the current margin profile should continue for the foreseeable future. So with that I turn to expenses.

Our employee benefit expense are considerable part of our P&L which were growing at 24% which is higher than what we are comfortable when we do see some challenges in topline growth. We do think that it is important to moderate this and management is taking steps towards that direction. Our finance cost are higher than June in the previous year but that is also linked to the impact of the Ind-AS 116 new accounting standards, which is on leases. Same is for depreciation. The finance cost of Rs. 5.3 Crores and depreciation of Rs. 19.2 Crores together Rs. 24.5 Crores is much higher than Rs. 3.7 Crores in Q1 of last year. It is primarily because we have leases that relates to our company run

stores, our offices and our warehouses. Now, we have to account for these lease as finance cost and depreciation instead of rent because of Ind AS 116. I am sure that everybody on this call will be well familiar with it. If anybody has query I can answer to that specifically later, but this changes primarily due to Ind AS 116. In other expenses, you will see that it has de-grown as compared to Q1 last year and part of this is because of reduction in rent. We did also take good care to moderate some of our fixed overheads in this period. We kept our broad advertising range of 5% to 7% of sales but it was at lower end of 5% rather than 7% of sales. We could see by mid April that it was going to be challenging sales quarter so we slightly moderated advertising plan. In terms of the future, if margins continue as they are and if sales outlook improves in H2, we would look forward to spending a bit more on advertising, if macroeconomic situation allows. So overall our revenues grew around 9%, our margins were the same as Q1 last year, our expenses also grew at 9% and therefore our profits before exceptional loss also grew around 9%. It was a well-managed quarter. Now I turn to the important exceptional item, which is Rs. 48.5 Crores loss. This is related to a fire that happened in our Ghaziabad regional warehouse on 3rd April, 2019. It was a regional warehouse because it serves the entire North zone. It was very unfortunate and for which we had to right down the stock. We are fully insured against this loss from the fire and as and when the insurance claim comes, we will write back this amount. So management does not expect this loss to continue but because of accounting standards requirements, we have to take a write down and we will write it back when we receive our claim. It is a large number at Rs. 48.5 Crores so we do expect it to take some time. Whether the write back happens in the current fiscal or next fiscal remains to be seen. We are making every effort that it should come back this fiscal but there are chances that it could take longer. We remain very confident that this amount will come back. So our profit before this exceptional item was Rs.103.2 Crores which I must say the record for this company crossing the Rs.100 Crores mark first time in Q1. It is a decent growth in a tough environment. After the exceptional loss of Rs.48.5 Crores, our PBT is at Rs.54.7 Crores, which is down 42% from Rs.94 Crores in Q1 of last year.

In Bangladesh, we are going well so the supplies from Bangladesh were much higher than Q1 of last year. Our sales from Bangladesh was double in this Q1 as compared to last year Q1. In order to double the sales, we also increased the manpower cost in our Bangladesh factories and we opened another plant and we had more workers. Furthermore, there were general election in Bangladesh in Q3 last year, and just prior to that there was an increase in the minimum wage in Bangladesh and that increase in minimum wage was to the tune of 40%. In Bangladesh, minimum wage increases after five years. It hurts a lot instantly in the first year, but over two, three, and four years, it will improve. We find continued pressure on prices whether it is from unbranded or branded competition and whether it is backpacks, handbags or luggage. It is quite good that we have been able to maintain our margins in that sense. We do find that it is more growth at the entry level then there is in the middle or premium end of the market. With that I will turn over to the questions, which will be answered

by either myself or Mr. Sudip Ghose, our managing director or Mr. Jogendra Sethi, our CFO. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Madam thanks for the opening remarks, it was very comprehensive, a couple of questions you know in last call management did indicate that there will be chasing gross margin expansion, maybe it can come at a cost of revenue moderation if required, the kind of revenue moderation we would have seen quarter-on-quarter, is it more indicative towards macrodynamics or is it more indicative towards the zest for gross margin expansion?

Sudip Ghose: Thanks for your question. At no point of time we said we will cut down on sales. Sales is something that we can never cut down because it comes after lot of effort. So this is more to do with the overall environmental situation where the election had an adverse impact on sales. In Q1, two things that really works, one is travel and other one is marriage. With Jet Airways discontinuing operations, April air travel numbers were negative, which are now slowly picking up so that one piece which impacted quite a bit on our sales and other one was obviously marriages because when elections are around people generally tend to postpone the marriage. Hence, marriage season really did not work for us but trust me that we will never cut sales, it is too important for us.

Nitin Gosar: Appreciate that Sir. The second question was pertaining to sale, if one were to bifurcate between entry level segment and the rest of the piece, how would have been the growth at entry level versus the others?

Sudip Ghose: Marriages which happen during April, May, June, are primarily marriages that happen in Eastern part of the country where the entry level sells more. So, I think that the entry level growth has come down a little. As Radhika said, VIP brand grew well and in fact the growth of VIP brand which is primarily because we had relaunched the brand with new logo and some advertising campaign was there. Primarily people have started seeing it in a very new light. We have seen that new outlets coming up in various parts of the country.

Nitin Gosar: Got it Sir and one last question on entry level segment previous quarter, there was pressure on gross margin on entry level segment and management was talking about putting efforts to rectify this gross margin, today as we stand gross margins has improved, but would it have come from Aristocrat brand or...?

Sudip Ghose: Gross margins have improved everywhere. I have also said in the last quarter's call that one is to increase price, second is to keep the cost down. We managed to really do well and the second, we had very good negotiations with our customers or our vendors in China and also Bangladesh all put together which is the key to the game because by increasing prices, there may be sales loss.

Nitin Gosar: Got it Sir.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from ValueQuest Investment Advisors. Please go ahead.

Chirag Lodaya: Congratulations on a good set of numbers in such difficult environment. My first question is on gross margin. So when I look at your gross margins it has improved dramatically and I understand you have given some reasons to it, but when I look at March balance sheet, there was high cost inventory sitting into balance sheet and this quarter suddenly we have seen improvement in margins so how could you explain this thing?

Sudip Ghose: We have managed to control the inventory to a large extent, but ideally if the slowdown had not happened it would have been even better. Because of the slowdown, it would probably take a little bit more, but the worst times are over and we are managing it well. New set of products, which we brought at a lower price has now started selling and therefore you see the improvement in the margin.

Radhika Piramal: I will add one small note. Your point is correct. We do still have some of the higher cost inventory with us. Our inventory levels are still a bit higher than what has been the average for the last few years. We took a conscious call of how to phase in our newer lower cost inventory versus our older higher cost inventory and we will manage it so that we balance our margins in H1 as well as inventory accordingly.

Chirag Lodaya: So is it fair understanding some of high-cost inventory can come into liquidation in subsequent quarter and we may see some alteration in margin just because of clearance of older inventory?

Radhika Piramal: We would like to maintain the current margin profile and phase out the older inventory in a better managed way as luggage is not a perishable item. In fact, it is the item which has a fairly long shelf life typically person does not buy a luggage more than once in five years, sometimes four years and sometimes three years. We have done a great job of planning the right balance between sales cost, margins, and inventory.

Chirag Lodaya: Just a further confirmation Sir FY2019 full year gross margins company should maintain going it that is what indication you are trying to do?

Radhika Piramal: Full year seems very long period at this time. We can say that we are maintaining margin so far.

Chirag Lodaya: Okay on growth front so when I look at your FY2019 full year sales balance sheet we get data about soft luggage and hard luggage and hard luggage almost grew by 50%, which was like I do not remember when you believe more than 20% to 25% in the last 10 years, so how one should look at in terms of gross margins for hard luggage vis-à-vis soft luggage, is there material different between both or is it the same?

Sudip Ghose: No, hard luggage is definitely going faster than soft luggage, the market is shifting towards hard luggage and we have adequate facility and capacity to maintain the demand. We are actually increasing our capacity in all our factories. So, there is a positive shift from soft to hard.

Chirag Lodaya: Okay and thank you and all the best.

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

Amandeep Singh: So my first question would be how much impact are you seeing in backpacks because of newer brands such as Arctic Fox and AmazonBasics and secondly are you seeing any moderation in growth rates in backpacks besides luggage?

Sudip Ghose: I do not think that those are big enough brand for me to comment. Our volumes are fantastic. Our distribution is very good. Those brands are only operating in one channel. I am operating across the country and all the possible channels so they can never match my volume at any point of time until there is some miracle.

Amandeep Singh: Okay Sir and Sir how has been the response to new launches in Skybags backpacks, we know that certain models from January last year or being sold at 20%, 30% discount across channels so Sir any impact of this?

Sudip Ghose: There are some set of people who have been ultra-discounting the market. We have taken a note of it and we are going to use some amount of technological support to ensure that does not happen next year, but as I said that is one channel and the other channels have not got impacted. We are so strong across all our channel mix that if one channel fails the other one picks up and we do our numbers.

Radhika Piramal: There has been an element of channel conflict in our backpack launch in 2019 last year and management taking steps so that it does not persist.

Amandeep Singh: Okay Sir thank you and Sir incrementally it is fair to assume that gross margin have bottomed down because of rate negotiations with Chinese vendors and increasing share of Bangladesh?

Radhika Piramal: What do you mean that margins have bottomed down? What does that mean? What are you asking, can you repeat the question?

Amandeep Singh: So are these gross margins sustainable given rate negotiation with Chinese vendors and you have taken price hikes and increasing share of Bangladesh?

Radhika Piramal: It is our endeavor. Margin expansion is difficult at this time especially in the phase of the slower revenue growth, but at the same time given that margins contracted in last Q3 and Q4, we would also be reluctant to see them shrink. So at this time, the best way forward is that we maintain these margins and try and get whatever best revenue growth we can that is our goal.

Amandeep Singh: Thank you and finally any outlook on growth for FY2020, you would like to give?

Radhika Piramal: It is difficult at this time.

Amandeep Singh: Sure thanks that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Anant Jain, an Individual Investor. Please go ahead.

Anant Jain: Just one question I understand that you cannot give growth guidance we think that we cannot give a good guidance just point of time for the entire year, but what made us give a 25% kind of growth guidance last year, I mean the question is more from the fact that last year was the only year we had grown 25% and 5, 10 years before that we were growing by 10%, so I just wanted to understand that aspect what led us to give kind of numbers before?

Sudip Ghose: If you really see, the slowdown actually started happening from April onwards for us. Last year, the market was good. So last time when we were speaking there was no issue in terms of the topline so we were pretty confident. It is just last three months that the overall sentiments have not been very good and therefore we see a slowdown. We are seeing slowdown across.

Radhika Piramal: Sorry to interrupt. I would like to complement Sudip's sale management which is one of the reasons we had a very good growth last year. There have been earlier periods when the macroeconomic environment has been excellent but VIP Industries has not benefited because perhaps our product portfolio was not correct or perhaps brand presence was not good or perhaps our sales management was not great. Sudip brings an excellent track record of sales and marketing management and that along with good brand launches, good merchandise and a good macroeconomic environment last year. We really realized the companies potential and all of those factors remain in our favor right now so although the market sentiment is sluggish you can see that we sound quite confident because we know the strength of our brands, our distribution, our portfolio and as soon as demand picks up again we will be right there to take the advantage of it again.

Anant Jain: That is fair. The second question is why do we have four subsidiaries in Bangladesh, what is the reason of having that many subsidiaries out there?

Radhika Piramal: It is really question for tax management. There are some tax exemptions which have a certain period so you get 100% exemption for income tax for the first three years, which will reduce to 50% for the following three years so on and so forth.

Anant Jain: That is good. The next question is you said that we had this some movement of other expenses moving into depreciation and finance cost, can you give me an idea in absolute terms what has been our advertisement expense in the Q1 last year versus Q1 this year, how much has that changed in absolute number?

Radhika Piramal: We do not have the exact numbers, but we slightly reduced our ad spend in Q1 this year compared to last year, not meaningfully but we certainly did not increase it and for anybody who has questions about the depreciation and finance, it is well written and there is a note there at the table.

Anant Jain: No I just wanted to know because that has really went in terms of

because the reason is that I saw a lot of advertisement across world cups from some of our competitors but I do not see much of an advertisement from our company so that was...?

Sudip Ghose: We spend a lot of money in IPL. World cup is something that I let go because in IPL India plays India wins and India loses and there is no way that you are going to miss out. So from advertisement point of view, it is better to bet on IPL than to bet on world cup because in world cup like we buy the media much ahead and if India would have done badly, money is committed but India does not play. It does not work out and it is really risky proposition as far as the world cup is concerned. On the other hand in IPL, we were present very strongly we were part of the Punjab team and it actually really helped us. The whole branding that we did with Punjab. The point is you need to choose the vehicle. We usually remember the recent ones. Just before Q1, we have IPL and where we have invested heavily and that paid off. I think that it is much smarter to invest in IPL rather than world cup because there is always level of uncertainty in world cup.

Anant Jain: I think and the last question from my side is that...

Moderator: Thank you. The next question is from the line of Varun Goenka from Reliance Mutual Fund. Please go ahead.

Varun Goenka: My question is around inventory turnover historically if we see our inventory turnover was in the range of 5 to 6 and last year of course it dropped to around 4, but going forward we have to grow at 15%, 20% for long period, if you could give us an idea as to how this would pan out and how we would change our distribution model to be a little more lighter on inventory, maybe franchise, the element of franchise is increasing etc.?

Radhika Piramal: I would just like to correct you. I do not think that our turns have ever been 5 to 6 so that is an exaggeration. I think that our turns have been 4 and it is true that in the March balance sheet our turns had worsened. Let us have complete conversation. We built up certain amount of inventory in anticipation of high sales growth that we expected would continue into 2019-20 as the way it was in 2018-19. In the phase of slower sales, we are going to have the higher inventory. It is not really a concern because as I mentioned before luggage is an item that can stay. We will adjust our future purchases accordingly. We will bring our turns back in line with our historical norms if not by December and definitely by the end of this fiscal year.

Varun Goenka: Okay and about our franchising?

Radhika Piramal: I think that is I am not even sure what you mean by that but the customer is king and we are good at serving the market maintaining our market shares so I am not sure what you mean by changing distribution towards ...?

Sudip Ghose: We do not pass on those stocks to franchise to clear our book so we will only sell what sells. Our whole franchise model works exactly like a company store where the sales are based on the secondary and we are very strict on the quality of sales that we do. Just because it is a franchise, it does

not mean that we park our stocks there that is what you are meaning. We control it very well any channel that we do. We sell as much as secondary and if the secondaries are not good then sales do not happen. That is it.

Varun Goenka: Sure just one more question what as per you would be difference in growth rates on the premium side which is Caprese or something versus our mass market brands I am just trying to get sense of?

Radhika Piramal: It is difficult to comment it right now. Last year, the entry segment was growing 25% to 30%.

Varun Goenka: Okay sure. Thank you so much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Jinesh Doshi from Prabhudas Lilladher Pvt. Ltd. Please go ahead.

Jinesh Doshi: My question is on the topline growth I mean obviously with slowdown concerns, we have seen growth coming off in this quarter, what I would like to know is that out of the three categories which is luggage, backpacks and handbag, which segment is witnessing a maximum headwind at this point in time?

Radhika Piramal: For us, the biggest headwinds is luggage sales growth. Backpack growth remains good. We have had small channel conflict issue. Handbags growth is not determined by the category growth for us. Our branded handbags is a category which is unorganized. Perhaps two years ago, backpacks and handbags were growing much faster than luggage. In the current environment nothing is growing so much.

Jinesh Doshi: Okay and in the initial remarks you mentioned that the 9% topline growth is broken down into 7% volume growth and 2% price growth. So this 2% of price growth is over and above the 4% to 5% price hike, which we took in March?

Radhika Piramal: The price hike that we took in March of 4% in some channels and not in all channels. It is some part of categories not all product category. So, it is a cumulative impact in Q1. There is also channel mix, brand mix and all of those things come into volume and value break up the right share.

Jinesh Doshi: Sure one last question on the gross margin, we can highlighted multiple factors like price hike, product launches at a better margin profile, higher share of brand VIP but out of all these factors which do you think has contributed maximum to be gross margin expansion and which is more sustainable in nature because I believe vendor negotiation pertains for some time and after a while that advantage might go away. So as far as sustainability of gross margins is concerned how do you see that?

Radhika Piramal: It is sustainable as the rupees stay at a certain level so all of those factors had an important part to play. It was just one rather than the other. Assuming the rupee say at Rs. 69 to Rs. 70 rather than Rs.72, Rs.73, Rs.74, then the current margin should be okay.

Jinesh Doshi: Okay there was some receivable pileup in the last quarter you

do payment issues from CSD so as that issue has been sorted out?

Radhika Piramal: It is in process and getting resolved but not fully solved. CSD depends on Ministry of Defense for funds. It is absolutely secured receivable in that we will essentially collect as and when CSD receives funds from Ministry of Defense and we are in the same queue as all the large companies of India. It is in the process and it will get resolved. It is not fully done yet.

Jinesh Doshi: Thank you so much.

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

Ankit Kanodia: Congratulations for a good set of numbers given the macro scenario and thank you for taking my questions, I just had one question and if we look at the EBITDA margin, they are basically four factors which affects it, one is raw material price, second is exchange rate, third is competitive scenario and the fourth one is your ad spends and employee cost. So of course on exchange rate, we do not have any control between if we look other three parameters how do we see the current year because we have seen a lot of divergence in all these factors in the last one day or so, so can we get some guidance on that?

Radhika Piramal: It is difficult to give more guidance other than what we have already shared which is we look to maintain the current margins. If rupee were to depreciate, we would reevaluate price increases to manage the margins. On the advertising front, it is more because of the reduction in sales growth that we have adjusted our ad spends, a little bit. If sales improve, we will spend a bit more on advertising that what we did in Q1.

Ankit Kanodia: What about the competitive scenario?

Radhika Piramal: It is stable at the moment in terms of there is no new significant new entry by any new player and three or four players that exist in India, everybody continues their efforts that they should.

Ankit Kanodia: In Q3, Q4 the concall we were worried about the competition, can we say that some sort of...?

Sudip Ghose: Now, I think that better sense have prevailed. If you see, some of our competitors' results have not been very good in Q4. I do not know much about their Q1 results, but I think that they have realized that just topline growth will not help anybody.

Ankit Kanodia: Okay thank you so much that helps really. Thank you.

Moderator: Thank you. The next question is from the line of Shiv Kumar from Unifi Capital. Please go ahead.

Shiv Kumar: I was mentioning about the employee expenses initially there were some comments on rationalizing these employee expenses going forward so should we expect a downtrend in absolute sense from Q1?

Radhika Piramal: No downtrend in absolute terms because nobody will take or

may be some people will take a cut in compensation but not at VIP Industries. What we are saying is that employee expenses grew by 24%, which is quite high and we would look to moderate that growth going forward.

Sudip Ghose: These are costs which we cannot manage in shorter term. It has to work on a long-term basis and these thing we do not do in hurry because it involves people.

Shiv Kumar: Okay do you also include the...

Radhika Piramal: It is just not clear enough. I will request you to get back in the queue. It is not clear. Thank you. Next question please.

Moderator: Thank you. The next question is from the line of Andhre Purshottam from Cogito Advisors. Please go ahead.

Andhre Purshottam: My first question relates to the relationship in what the situation between the Chinese suppliers and the US market and you said that US demand was a little cool. So I wanted to understand is this direct result of the actual on the trade war which is happening and has there been actual tariff increase the US imposed in China or is it just weakening of demand per se that is giving you some leverage with the Chinese supplier?

Sudip Ghose: In US, the luggage which used to have duty which was 20% has now gone up to 45%. So if you are importing products from China, they have to pay 45% import duty in US, which earlier was 20%. It is significant and therefore there has been kind of slowdown from the Chinese vendors. US also operates some high inventory so I guess it is going to be a time when they will feel the pinch.

Andhre Purshottam: Okay my second question related to the impact of GST on the unbranded sections in your market so if you could explain to me what is exactly happening vis-à-vis the supposed conversion from the unorganized to the organized across your three categories luggage, backpacks and handbags so what is really happening. Has GST actually accelerated this conversion because there was a small remark at the beginning by Radhika saying that there has not been much change in the shares of unbranded and branded players, could you just explain the mechanics of what is happening in this market and is there a scope for growth from unorganized players in the near future?

Radhika Piramal: Sure. One of the things, we said in the last two or three concall since GST was implemented that many unbranded players who were earlier not paying any tax at all are now paying tax and therefore they had to increase their prices and the price gap between unbranded and branded narrowed and therefore that was helping branded luggage because the product in which earlier the price gap may be Rs.1000 and consumer would not have upgraded but as the price gap reduced to Rs.500, consumer may upgrade. In the current scenario, it is not about unbranded, branded or comparative intensity, there has been serious slowdown in demand, which is most important factor of the current April, May, June quarter. It has been most rapid slowdown of demand that I have seen in over four or five years. It is not like anything that we have seen for a long time.

Sudip Ghose: In fact, it is one of the seasons that inspite of having marriages, sales have not happened the way we expected and really marriages have a very important role in our sales and this year Q1, the number of marriages were significantly higher than ever. It has been unprecedented slowdown and the whole sentiments are actually low. We also count footfalls and footfalls have dropped and retail industry is struggling.

Andhre Purshottam: Right I think that answers my questions. Thank you very much.

Moderator: Thank you. The next question is from the line of Rahul Picha from Multi-Act. Please go ahead.

Rahul Picha: My first question is on the price increase so in response to the raw material cost increases over the last couple of quarters, we had said that you would be looking to take 5% to 8% price increases of which half was taken in Q4 of last year and balance was to be taken in Q1 this year so has that come through?

Radhika Piramal: Let us comment quarter-by-quarter. We have discussed margins quite a bit already. We are pleased that our margins in Q1 closer to our margins of Q1 last year compared to Q3 and Q4 of last year, so let us move on to the next question please.

Rahul Picha: Second question was on the inventory, you earlier alluded that the relatively higher cost inventory that we had on our books has not yet flown to the income statement in this quarter, and can you explain that again please?

Radhika Piramal: Yes. We bought inventory in Q3 and Q4 of last year when the rupee was at Rs.72 to Rs.73. We have also bought more inventory when the rupee was at Rs.69 to Rs.70. We also purchase new inventory for new product launches for the April, May, and June. On top of that, sales in April, May and June were not as per our internal targets. So that means, we still have some inventory that we purchased back and let us say last October onwards, which remains on our balance sheet, which we will sell all the way through along with the new products and the new inventory from now through till let us say December or March.

Sudip Ghose: We bring one range against another range. As we are already holding inventory of existing range, we have stopped purchase of replacement range which means that I do not have to discount the range and sell. It will sell in a particular pace, but since I do not have a range, which is behind it and which has landed up. The moment we realize that we are not going to have sales as required, we actually cancel launch of ranges for which the products are already there. So there is an A and a B. B was supposed to replace A. We stopped that B and we continued with the A. Now the A's pace of sale has slowed down, but we do not have an urgency to discount the product eve the B product had come, so we have stopped B. We are still continuing with the A and we are going to liquidate in time, so if you are asking me whether I am going to discount the product and sell it off in the market definitely not to the extent. I am not in a hurry and like Radhika said ours is not a perishable goods so we

need to discount it and sell it.

Rahul Picha: Okay, got it. Thank you.

Moderator: Thank you. The next question is from the line of Neeraj Savai from JM Financial Limited. Please go ahead.

Neeraj Savai: Good evening everyone. My question is particularly regarding the Bangladesh operations. Like, can you just help me out with the kind of revenues what you made in Bangladesh and every quarter we had been giving PAT as well for Bangladesh if you can just help us out please?

Jogendra Sethi: Bangladesh Companies had a revenue from operations of about Rs. 43 Crores in Q1 and PAT was at about Rs.4 Crores.

Neeraj Savai: Rs. 4 Crores and also just to supplement this when we do we see this PAT improving in Bangladesh operations because we understand last year there were like salary hikes and we also had given revenue guidance for the next two to three years can be substantially high in Bangladesh?

Jogendra Sethi: Bangladesh is work in progress. We think that the efficiency of Bangladesh plant should start settling from Q3 onwards.

Neeraj Savai: Any guidance, which you can help us out for maybe for 2021?

Sudip Ghose: No more guidance.

Neeraj Savai: Anywhere any number, which you can say how much does it contribute?

Sudip Ghose: Let the numbers talk when it happens.

Neeraj Savai: Alright, okay. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Just wanted to understand we have been trying to fix up VIPs growth challenge for a while and now it seems for a couple of quarters we have been hearing positive commentary? Would it be fair to assume that now enough efforts have gone in to reviving and it is on autopilot mode and B, question would be is VIP now witnessing mid single digit kind of growth, which can be called stable growth rate?

Radhika Piramal: You used the phrase autopilot. It is a huge disservice for the management of the company who works really hard to achieve this kind of growth.

Nitin Gosar: Will it be fair to assume now we are in mid single digit kind of number for VIP?

Radhika Piramal: Let us go quarter by quarter.

Nitin Gosar: Fair point. The next question is pertaining to the fire did we lose out any kind of sales because of fire and the products were not available?

Sudip Ghose: Yes. These were stocks that were sent. It was a regional RDC and stocks were sent for April months' sale.

Radhika Piramal: It would have had some impact. It is hard to quantify exactly. We quickly ordered some more stock, etc., but it is done now. Finished.

Nitin Gosar: Fair point. Thank you.

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

Tejas Shah: Good evening. Thanks for the opportunity. Radhika you spoke at length about the upgrading, which happened in our portfolio this quarter because of the intervention that we made in VIP, do you worry that in current environment when GDP or other growth itself is not very robust and comes consumer spending the down trading or the mass end of the portfolio can de-grow again and that might put pressure on margins going ahead?

Radhika Piramal: We did not make Aristocrat worse. We made VIP better. It is surely good for the company as we make our flagship brand better and that slightly improves the brand mix and therefore the margin profile. Aristocrat remains with its attractive offerings. I am not concerned about the brand mix at all at this time.

Tejas Shah: Second on competitive intensity since December online private label ruling came in surprisingly the private labels have actually increased on some of these online platforms and they have entered aggressively in luggage as well as we noticed on their portals? Obviously they are very small in size, but are you seeing your sales through the channel being squeezed out because of their own private labels?

Sudip Ghose: In India people love VIP and they love to buy its product. As far as I am concerned my e-com sale has not slowed down in terms of the growth. Obviously our e-com sale income is much smaller in the overall channel mix, but it has been growing at a pace, which it continues to grow and we are absolutely not concerned about.

Moderator: Sorry to interrupt Mr. Shah. Thank you. The next question is from the line of Sujit Jain from ASK Investment Manager. Please go ahead.

Sujit Jain: If I were to look at cash flows over a multiyear period, the cash flow conversion has not happened to the extent of profit compounding? The cash flow from operations has remained in the zone of Rs.50 Crores to Rs.60 Crores average? I take out aberration such as FY2019 where inventory went up and therefore there was a negative cash flow from operations and perhaps look at three year rolling period let us say FY2016 to FY2019 and then FY2015 to FY2018 to look at average cash flows over three years, they have not materially improved from let us say average of Rs.50 Crores to Rs.60 Crores, so what are your views on conversion from EBITDA to cash flow or conversion from PAT to cash flow?

Sudip Ghose: To answer your first question, we have been continuously investing. The capex has gone up over the last couple of years.

Sujit Jain: I will have to interrupt here I am talking about cash flow from operations before your capex?

Jogendra Sethi: Sudip was mentioning about the investment in the working capital. As the business is growing, investment is required in the working capital in the form of inventory and receivables. For higher sales, more value of inventories and receivables are required to even maintain number of days of inventory and receivables.

Sudip Ghose: I actually have to close because it is five and there is another meeting, which is scheduled. For any other queries, I would request just to write to me, Mr. Sethi and Radhika. We will get back to you as and when we can, but we have to leave now. There is another meeting scheduled for which people are waiting.

Moderator: Thank you. Sir would you like to add any closing comments?

Radhika Piramal: Everybody thank you for dialing in. I think that you can hear from our commentary that in the circumstances, we have put in a decent performance. Obviously it is less than what the management wanted and we hope that demand picks up in the second half of this year. We remain confident on our margins and our competitive position. We look forward to your continuous support and to our call next quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

Aditya Narain, Head of Research, aditya.narain@edelweissfin.com

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