

## Conference Call Transcript

VIP Industries

Q4FY19 Results

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### *Corporate Participants*

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**Mr Dilip Piramal**  
*Chairman*

**Ms Radhika Piramal**  
*Executive Vice Chairperson*

**Mr. Sudip Ghose**  
*Managing Director*

**Mr Jogendra Sethi**  
*CFO*

## Questions and Answers

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**Moderator:** Ladies and gentlemen, good day and welcome to the VIP Industries Q4 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 Ms. Shradha Sheth from Edelweiss Securities Limited. Thank you and over to you Madam!

**Shradha Sheth:** Thanks. On behalf of Edelweiss, let me welcome you all to the Q4 FY2019 earnings call of VIP Industries. From the management today, we have Mr. Dilip Piramal, the Chairman, Ms. Radhika Piramal, the Executive Vice Chairman, Mr. Sudip Ghose, the Managing Director and Mr. Jogendra Sethi, CFO. 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:** Thank you Shradha. Good afternoon ladies and gentlemen. Thank you for taking out time to join our conference call. I will first discuss the quarterly performance followed by the annual performance. All number refers to will be of consolidated data.

During Q4 FY2019, the company achieved income from operations of Rs.435 Crores against Rs. 362.6 Crores in the corresponding quarter of the previous year, registering a growth of about 20%. EBITDA, however, was much lower at Rs. 41.5 Crores for Q4 against Rs. 56.7 Crores with year-on-year decline of 27%.

PAT was at Rs. 25.3 Crores against Rs. 35 Crores, a decline of 28%. This has been the worst quarter since quite a few years and hence I would like to take this opportunity to explain reasons why it has happened and the actions management is taking to arrest the slide in profitability. Q4 sales growth of 20% was split into volume growth of 25% and decline of 5% in per piece realization because of the change in product mix. Q4 sales growth was highest in entry-level products, which adversely affected the brand mix. The rupee depreciated against the USD by about 10% during Q4 as compared to the same period last year. There was an increase in basic custom duty from 10% to 15% in September 2018, which has also negatively affected Q4 gross margins. Due to competitive pressure, the company did not take price increase until March 1, 2019. All the above reasons negatively affected growth margin significantly.

Management is aware of this entire impact and is taking corrective action by firstly taking additional price increases, secondly by introducing changes in product assortment from April to improve brand mix and value sales growth and thirdly by entering into further negotiations with vendors to reduce the cost.

I will now turn to our annual performance.

For the year ended March 31, 2019, the company achieved income from operations of about Rs.1784.7 Crores against Rs. 1416.3 Crores in the previous year, registering a growth of about 26%.

Our EBITDA was at Rs. 233 Crores for the year against Rs. 202.7 Crores in the previous year, a growth of 15%. PAT for the year ended was at Rs. 145.3 Crores up from Rs. 126.7 Crores, a growth of about 15%. Essentially 2018-2019 was divided into an excellent first half followed by a disappointing second half. Our management is taking all the necessary actions to improve performance in the year ahead.

An update on Bangladesh operations, income from operation from VIP Bangladesh operations for Q4 FY2019 was at Rs. 39.2 Crores against Rs. 19.8 Crores, a growth of 98%. Now, let me tell you that this is the consolidated account of our four Bangladesh subsidiaries. Profit after tax of Bangladesh operations for Q4 was Rs. 4.7 Crores as compared to Rs. 3.2 Crores in the corresponding quarter of the previous year, a growth of 47%.

Income from operations from Bangladesh for the year ended March was at Rs. 129.2 Crores against Rs. 56.9 Crores in the previous year, a growth of 127%. PAT was at Rs. 17.5 Crores as compared to Rs. 9.5 Crores, a growth of about 84%. We expect good growth in Bangladesh to continue due to expansion plans.

I hand over the floor for question, which will be mainly answered Ms. Radhika, Mr. Sudip Ghose, MD and Mr. Jogendra Sethi, our CFO. Thank you.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Chirag Lodha from Value Quest. Please go ahead.

**Chirag Lodha:** Thank you for the opportunity and congratulations on good growth number. First question is on balance sheet, if I look at your balance sheet, inventory days have increased sharply vis-à-vis debtors also and net cash balance sheet is looking like net debt 885 Crores, so would like to hear your comments on this numbers?

**Sudip Ghose:** As Chairman pointed out, the year was divided into two parts viz; H1 and H2. The inventory shot up because last year H1 was very good. Hence, we had expected quite a bit of growth especially on the soft luggage. One, though we grew but our growth estimates were little ambitious. Secondly, the mix had changed from soft luggage to hard luggage. As we procure soft luggage from China, we had to plan the inventory in advance due to lead time. Inventory has shot up and it will take some time to correct the inventory. We are already taking corrective actions and by end of next quarter, we should be able to bring it back under control.

**Chirag Lodha:** And what about debtors?

**Sudip Ghose:** We supply to CSD which is for armed forces. CSD did not pay for almost 3 months during January to March. We have received payment from CSD April onwards which is under control now.

**Chirag Lodha:** Increase in inventory is largely, you have imported more of soft luggage and growth you have seen is through hard luggage, so that is the mix change, which has happened and now in coming quarters you may see this again coming to normalized level?

**Sudip Ghose:** Yes, it will.

**Chirag Lodha:** Second question on this margins, when I look at your P&L for full year, we have seen a robust growth out of 27% and at the same time we have not seen any operating leverage kicking from say employee cost or your other expand line item, so how one should look at this both line item with such a good growth still we are not seeing any operating leverage coming into numbers?

**Sudip Ghose:** There were some structural changes that have been done in the organization. Due to these changes, we have hired some senior level officials. Incentives paid to the sales team were on higher side due to topline growth which have resulted in higher employee benefit expenses. We are working on our costs. Hence, these numbers should look better in the coming quarter onwards.

**Chirag Lodha:** Is there any increase of A&P spend in current year vis-à-vis last year that has resulted in increase in higher other expense or that number is?

**Sudip Ghose:** No.

**Radhika Piramal:** No, it is not advertising.

**Chirag Lodha:** In terms gross margins, how one should look at your gross margins, it has been 2 quarters we are seeing our gross margin around 47 to 47.5., last full year we were above 50%, so how one should look at this number going ahead in current scenario?

**Radhika Piramal:** If you look at the last year H1, it was actually much higher than usual so I do not think that it is a correct base to compare. Last year H2 was much lower than usual and it is also not the right base. So, if one looks at an overall gross margins, let us say an average of the last three years, we are very confident that we can return to. Matching the H1 gross margin of last year will be challenging as rupee has depreciated and the custom duty rates have increased. We are working on taking further price increases.

**Chirag Lodha:** So, margins are going to sustain that is what the indication you are trying to give?

**Radhika Piramal:** No, we are going to improve on last Q4 margin. We should look at average margin of last full year.

**Chirag Lodha:** When I look at your topline, so on a full year basis if you can just help us understand what would be the volume growth and realization decline we have seen on the full year basis?

**Radhika Piramal:** For the full year, our volume growth is little bit higher than the total growth which means that we had a decline in average selling price per unit. It comprises two things, one entry level products grow faster that is primarily our Aristocrat brand and it is very important that we continue to focus

on this, because it is a very competitive space where lot of action is happening. The other product segment which is growing very fast is backpacks where average selling price is much lower than the price of a luggage. Aristocrat is growing faster than the company average and Backpacks are growing faster than the company average. Hence, it is not that prices are dropped but the growth is coming at entry level products and therefore we are doing value engineering of our product, negotiating with our suppliers and working out to take these entry level products at same gross margin as company average which is going to be focus of the management in the current year.

**Chirag Lodha:** Just last question on overall growth drivers going ahead, so one thing is, is this 27% growth a reflection of industry growth or we have gained substantial market share vis-à-vis other players and secondly how one should look at next year going ahead in terms of overall growth?

**Radhika Piramal:** With respect to the industry, we do not yet have our competitors' financial for Q4FY19. On the basis of sales intelligence, we feel that we grew in line with industry and there was good sales growth in Q4 at the entry level. In terms of the growth for the year ahead, it is early to comment on that. We are only one month in the new financial year, but I do see some slowing in the current year compared to the previous year. It does not really change our profit growth ambitions. We feel that even sales growth come down a bit and if succeed in the actions we are taking on the gross margin front, we can go back to the good profit margins that we have had in the last years.

**Chirag Lodha:** All the best. Thank you.

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

**Nitin Gosar:** I just wanted to understand that there is some deceleration in the growth, any particular reason, which is dribbling this kind of moderation?

**Sudip Ghose:** Can you repeat the question? I did not hear it properly.

**Nitin Gosar:** The idea was just to understand, first nine month we had almost like 30% kind of growth, fourth quarter we had 20% kind of growth, 20% absolutely is not a bad number to have, just wanted to understand why the slow down would have happen from 30% to 20%, what could be the reason behind that?

**Radhika Piramal:** We find that little bit macroeconomic is just turning. We are not experts to figure out why this is happening. Number of marriage dates in the current quarter are good, having said that we have not seen same robust sales growth and demand what we experienced a year ago.

**Nitin Gosar:** Got it and in the initial remark, Sir did mention about the entry level segment seeing high action, any comment on Skybag and VIP how have they done?

**Radhika Piramal:** Yes, sales was good as a company average. It is in line with our expectation.

**Nitin Gosar:** There was also comment that hard luggage have seen higher

growth versus the expectation of soft luggage would it mean we are referring to Aristocrat brand?

**Radhika Piramal:** Yes, we have good amount of intuitional hard luggage sales and we also had good amount of Aristocrat hard luggage sales.

**Nitin Gosar:** Would you want to highlight the number because that will set in as a base right now?

**Radhika Piramal:** It is a brand channel mix and there are specific reasons. It is not something that we have a problem. It is quite easily resolved when we treat our product assortment.

**Nitin Gosar:** Radhika, question was on the institutional sales, which would have been more like of one of kind of nature, would you want to highlight in number out here?

**Radhika Piramal:** No, I would not.

**Dilip Piramal:** No, it is not one off because through various sources we keep getting it. In fact, we had very good growth and we expect the trend to continue.

**Sudip Ghose:** The luggage has become one of the key gift item. Even if you move into malls and you will see in most stores that free items are luggage, so it has become a very important and a very useful product for consumers and the Companies are realizing that it is a good consumer schemable product. Like Chairman said that there are many more organizations who are looking luggage as a promotional item as a gift item and it is not just gift.

**Nitin Gosar:** One last question, since the expectation of gross margin this slightly improved from year on that is the number that we showed in the fourth quarter from there on the numbers can improve on gross margin and if the employee cost, which is slightly on the higher base and it is to normalize, then there is hope for EBITDA margin to improve?

**Radhika Piramal:** There is certainly scope for improvement in EBITDA margins.

**Nitin Gosar:** Should we keep FY2019 as a whole year's EBITDA margin as a number?

**Radhika Piramal:** We cannot give specific guidance.

**Nitin Gosar:** Thank you.

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

**Ravi Naredi:** Respected Chairman Sir, always you believe that the company will grow more that 30% in the next five years, so still this assumption is same?

**Dilip Piramal:** There was a setback in the year, but I am an optimist person and I would like to stick to that.

**Ravi Naredi:** Thank you. That is a very important point.

**Moderator:** Thank you. The next question is from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

**Mitul Mehta:** Radhika, so what we have seen this year is typically of entry level luggage selling more than the other portfolios and which is why we saw gross margin reduction and pressure EBITDA margin, now going ahead into FY2020-FY2021, any price action that you will take will largely be in entry level or it will be kind of across the portfolio?

**Radhika Piramal:** No, the price increase will be across the portfolio. We will do specific to product assortment to ensure that the gross contribution in each brand is closer to the average.

**Sudip Ghose:** One of the things that is going to work favorably for us during the current quarter is that we are doing whole push on the VIP brand. I am sure that you would have seen that we have re-launched VIP brand with the new logo. The advertising push to VIP brand, like taking part in IPL for the first time, has already started reflecting in the VIP. VIP happens to be the most profitable brand that we have other than Carlton, but Carlton is smaller than VIP. We will be aggressive on profitability. If we succeed in selling more VIP, profitability of the organization will automatically improve. Hence, we are doing the same consciously. In the opening remarks, Chairman mentioned that one of our key target for the management today is to change the mix favorably towards VIP and Skybags. VIP looks very good both in terms of product and campaign.

**Moderator:** Thank you. The next question is from the line of Sajjan Didwania from Frontline Capital Services Limited. Please go ahead,

**Sajjan Didwania:** Thank you for the opportunity. Sir, just in the initial message what you said that this gross profit margins all is mainly due to the price hike you could not take to absorb this input duty and this rupee depreciation, so any hike has been taken in this quarter?

**Sudip Ghose:** Yes, we have taken one price hike already from March 1, 2019.

**Radhika Piramal:** We cannot always take the same uniform price increase in every channel at the same time. We are doing as a continuous process. We are gradually taking price increase across all our brands and channels between March and June. By July, we should have expectably taken price increase of around 5% to 8% across all brands and channels.

**Sajjan Didwania:** So, in March how much percentage this price hike has been taken place?

**Radhika Piramal:** Effectively, it was only about 2%.

**Sajjan Didwania:** Second what Chairman said for sales, the product mix change, so I do not know what is reason of this soft bags VIP and Skybag these are not selling and this lower brand Aristocrat, etc., are selling more, is there slow down in the soft bags?

**Radhika Piramal:** It is not a slow down. It is attractive offerings at the entry level in particular hypermarket channels, which are growing the most in India even inorganically. We have to just fix the margins in the entry level segment.

**Sajjan Didwania:** No, but you know it is affecting our gross profit margin, so certainly this product mix change like soft bags are selling lesser than the entry



level bags and they are reducing our profit margins, so we are losing on that front?

**Radhika Piramal:** It is balancing act and we will get it right.

**Sajan Didwania:** Another thing I just wanted to know, in the last concall as you mentioned that because our inventory, which we bought at higher prices, and it was around for three months inventory and three months in the channel while coming from China, so it will take around six months to absorb that high cost inventory, so what is the scenario in that front right now, are we going to see a better inventory, which we are selling with the high profit margin this quarter?

**Radhika Piramal:** We are in process. We have definitely made some progress towards selling the inventories, which were bought at higher cost. By the end of June, we should be done with the higher inventory.

**Sajan Didwania:** And what is the scenario of the high growth backpack segment, which was growing on a 30% to 35%, is it continuing that way or any slow down in there also?

**Sudip Ghose:** No, the backpacks are continuing at the same pace and there is no slowdown in that.

**Sajan Didwania:** Last question is, what is the scenario in the higher segment like Caprese handbag and the Carlton sales?

**Sudip Ghose:** The higher segment growth has been good and percentage growth has been good, but since the overall value is not very high, it will not have a larger impact on the overall company's performance. Caprese has been good, our new collection has been received well.

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

**Mandeep Singh:** Thanks for the opportunity. My first question is what is your contribution of VIPs brand to your overall revenue and have you seen any pickup in growth rates for the brand post the revenue at Campaign, which was launched in March this year, secondly is the campaign cost expected to flow through in subsequent quarters?

**Sudip Ghose:** First of all, we do not give brand wise numbers that is something we do not do. To answer your second question, the overall focus of the management is to get VIP brand sales up and the Campaign has been very well received. The new VIP logo has been appreciated and it is much younger. We are yet to do research on the consumers but this should have a very positive impact on the mix.

**Mandeep Singh:** About the campaign cost it is expected to flow through in subsequent quarters?

**Radhika Piramal:** We manage our advertisement spend at between 5% and 7% of our sales and we continue with our overall approach.

**Mandeep Singh:** Thanks. Secondly, we believe that the contribution of



backpacks and ladies handbags to your overall revenue was around 25% in FY2018, can we know the current split across categories or if that is not possible can we know the growth rates across this categories in FY2019?

**Radhika Piramal:** No, exactly we cannot tell you, but I can tell you that ladies handbag is much smaller than backpacks. So, ladies handbag is not a key driver on margins like backpacks.

**Mandeep Singh:** Noted, and finally on the interest cost, so we have seen that interest cost has increased since couple of quarters, so any outlook on this?

**Radhika Piramal:** That is direct flow of our cash flows and as somebody have correctly said that the inventory and debtors. It will improve but interest cost will be slightly higher than last year.

**Mandeep Singh:** Thank you. That is all from my side.

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

**Tejas Shah:** Thanks for the opportunity. Sir, the way I understood the problems statement today on margins from your commentary it is more of a mix issue, which has impacted margin like-to-like portfolio margin is that correct understanding?

**Radhika Piramal:** Both. That would be simplification. The cost increase is due to rupee depreciation, import duty increases and the lack of price increases.

**Tejas Shah:** So, mix change issue is largely demand led, so even if let us say this year also if consumer continues to purchase entry level products you cannot change that or alter that immediately, so what kind of interventions are at your disposal to correct this mix issue?

**Sudip Ghose:** Entry level products do not have to be lower gross margins. We need to do value engineering, negotiate hard with the suppliers or find innovative ways of getting the costs down. We would like to be part of the growth story. So, our job is to make the entry level products more profitable. The gross margin is all about reducing the CoGS and we can manage the CoGS well. We will be able to get Aristocrat brand also into the same profitable percentage. We have done a quite a bit of work and some amount of work is still going on. So, this year it would start showing.

**Tejas Shah:** Just wanted to understand when technicality on inventory, the inventory, which is lying with us today, it will be branded already, so you know the mix already, so you cannot change at least even in this season that mix materially the only intervention perhaps we can do is price hike, is that correct understanding?

**Radhika Piramal:** Yes, we are okay to hold the luggage inventory for 4 or 5 months. It does not really matter anyway and it will sell. The cost of holding the inventory is much lesser than the cost of sales loss. So, we would rather buy inventory if we see a particular opportunity of sale.

**Moderator:** Thank you. The next question is from the line of Jinesh Joshi from

Prabhudas Lilladher. Please go ahead.

**Jinesh Joshi:** Thanks for the opportunity. Couple of question, now in the past we have stated that changing the brand perception of VIP had been a bit of a challenge for us, but we have finally repositioned the brand with a new logo and now we also have a new brand matter in place, so what give this confidence this time that the repositioning strategy will yield results for us?

**Sudip Ghose:** VIP brand cover was never an issue. The consumers knew about the brand, but it was not appealing to them. If you see new positioning, which is Hello Holidays means it is about holidays. In India, there are two kinds of travel happens; one is business travel and the second is holiday travel. Holiday is a space that nobody has taken. Most of the brands talk about either fashion or youth but holiday, which is the prime driver of the category, has been missing. So, we have decided to take the space and also India is about family unlike the west where lot of individualistic lifestyle is being led. India is all about family. We do not have one brand ambassador, but we have a unit with the kid, which helps to resonate with the Indian family which is from the communication point of view. If you really see the products, they look very young and very colourful, which VIP has not seen. We are very confident that it will definitely work.

**Jinesh Joshi:** Secondly, can you highlight the extent of loss caused by the fire incident that our warehouse and also if the warehouse is currently operational or not?

**Radhika Piramal:** We had fire about one month ago. It is too early to quantify the loss, but we are insured. In the fire, we lost some stocks and assets and we had to quickly arrange to get replacement of stock at short notice. I would like to mention that we are insured and in the past whenever we have had any issues of fire or flood, we never had any difficulty in getting our insurance claims.

**Jinesh Joshi:** But is the current warehouse operational or have we hired another warehouse at this point?

**Radhika Piramal:** We have taken some temporary warehouse.

**Jinesh Joshi:** Secondly, we just mentioned that we took a price hike in the month of March, can you highlight if any of our competitors have also taken a hike in the previous quarter?

**Sudip Ghose:** No, in the last full year and till now both the competition have not taken price increase and in fact they have decreased.

**Moderator:** Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

**Atul Mehra:** Thanks a lot. Just back on the pricing question, I remember in the past around GST we specifically pointed out that we have realized that unutilized pricing power in the category and with that in context in the current environment what you say the competition is not taking price increase despite costs being where it is, so what is exactly happening in your understanding it is getting to presently pricing and get the market share gains than the cost of

margins?

**Sudip Ghose:** I do not know the drivers for competition. We have been dominant in almost all segments of the market. I think that they are going for the topline. We still hold around 60% market share in almost all major channels and their priorities have changed to topline.

**Atul Mehra:** And for us they remain the same profitability oriented with a little bit of lag in terms of price increase and we are sure we will not go that bad around market share?

**Sudip Ghose:** Yes, we have to ensure that the CoGS are in control to make the brand profitable and also to ensure that the price is right. If we get both the things right, even our entry-level products can become very profitable and we are working on the same.

**Atul Mehra:** Great, that is it. Wish you all the best.

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

**Nirav Savai:** My question is on this Bangladesh expansion, we have been on an expansion mode for a long time, so is there any revenue milestone, which we aim to reach in the next two to three years and also when do we see profitability improving from Bangladesh operations?

**Radhika Piramal:** There is no specific revenue milestone. We intend that sales growth continues and gains of growth to flow in our gross margins.

**Nirav Savai:** So, you expect this kind of growth to continue 40% to 50% next year in Bangladesh as well?

**Radhika Piramal:** For current year, yes.

**Nirav Savai:** And on the profitability side do we expect the significant jump coming from Bangladesh?

**Radhika Piramal:** That is our goal. It will be premature for me to give you specific figures now, but definitely we can see profit growth potential.

**Nirav Savai:** This majorly caters to what, I mean is it backpack or it?

**Radhika Piramal:** It is both backpacks and luggage in soft luggage.

**Nirav Savai:** And what could be our capex plans for the next two years for Bangladesh and if any from?

**Radhika Piramal:** Current year capex was a bit higher than in the last couple of years and it is because that we see the benefit of this continued expansion.

**Nirav Savai:** So, we expect to what about, what your Crores capex over the next two years or more?

**Radhika Piramal:** Possibly a little higher, but not too much.

**Nirav Savai:** On this mass market brands mainly Aristocrat and Alfa they continue to be in this growth phase say about 20% plus for the next two years?

**Sudip Ghose:** Yes, definitely, if not more.

**Nirav Savai:** If not more than at least 20%.

**Sudip Ghose:** The key is to make those brands profitable more than what it is now. We will not like to miss growth story which is humongous.

**Nirav Savai:** The last one is on the Caprese side that you know you said this is continuously growing it about 30% as well, do we see this accelerating further through franchises so any other thing which you would like to update on Caprese?

**Radhika Piramal:** We continue growing primarily in departmental stores, own stores and e-commerce so we do not see any big change in the mix of the distribution channels.

**Sudip Ghose:** The only change that you can see is more and more players are coming in that is growing the category even lot of unbranded. If players start investing, consumer get more attracted to branded products and it helps. If the category grows, we get benefited because we are market leader in the category.

**Nirav Savai:** Thank you.

**Moderator:** Thank you. The next question is from Shiva Kumar from Unifi Capital. Please go ahead.

**Shiva Kumar:** Thank you for the opportunity. Sir in the Q3 call you mentioned you got into price negotiations with the Chinese suppliers and you will get to see the benefits of that in Q1 of FY2020 and Chairman Sir again mentioned that there were further negotiations in Q4, does that mean that there will be additional benefit than what you have indicated in Q3.

**Radhika Piramal:** We will comment it in the Q1 call.

**Shiva Kumar:** But at least we should better margins in Q1 because of those negotiations, which you have done in Q3. Can we say that?

**Radhika Piramal:** We would expect better margin in Q1 than Q4 but more specifically we will be able to comment in Q1 con call.

**Shiva Kumar:** Thank you.

**Moderator:** Thank you. The next question is from the line of Madhuchanda Dey from MC Research. Please go ahead.

**Madhuchanda Dey:** There are signs of consumption slow down starting from say two-wheeler sales to air passenger traffic growth to even staples. So first of all my question is, are you sensing something worth in your line from business?

**Radhika Piramal:** Yes, we are.

**Madhuchanda Dey:** So in light of that given that how are you deciding to take a price increase in this juncture and in case if you are taking a price increase are you prepared to take some volume deceleration at this stage?

**Radhika Piramal:** If you look at Q4 results, the challenge is not the volume sales growth but the real challenge is gross margins. A sustainable profitable growth is more important even at the cost of some sales growth.

**Madhuchanda Dey:** So you expect to maintain gross margin even if there is

some volume deceleration in this price hike? That is the correct understanding.

**Radhika Piramal:** I do not know. You are trying to put words in my mouth.

**Madhuchanda Dey:** I have a small question on your Bangladesh operations, there is a slight deceleration in the margins from what you reported in the last year also, so do you expect this level of margin to sustain going forward or what is the kind of margin should we be looking at?

**Radhika Piramal:** There was an increase in the minimum wage in Bangladesh. It is a fairly significant increase of 40% in workers' wages. There is an increase in minimum wages in Bangladesh every 4 to 5 years near election time. We are confident that with scale we will get back to the good margins that Bangladesh had last year.

**Moderator:** Thank you. The next question is from Suvarna Joshi from Axis Securities. Please go ahead.

**Suvarna Joshi:** Thank you for the opportunity. I specifically had a similar question to the earlier participant while most of the segments in the industry which are consumption driven are seeing a bit of slow down, so just wanted to understand why are we so confident of saying that the entry level segment is continuing to grow at the 20% rate that we have been seen, that is one. Is it also true for the industry that even competition is going to look at the similar growth rates so that was my first question.

**Radhika Piramal:** I do not remember. We have not talked about sales growth. We have continuously been talking about margin growth and I am confident that our margin growth will improve. We said that in full fiscal year last year we had experienced a very high sales growth, which was primarily driven by volume growth. Getting margins is more important at this stage than anything else.

**Suvarna Joshi:** Sure, then my question would be in terms of trade channel you mentioned that hypermarket segment is growing faster than the other meaning that traditional channel that you have seen. So could allude to the reason why the hypermarket is growing faster, is it because competition is also you know probably sacrificing or rather being more attractive in terms of the discounts and the commissions that are given or how is it working like over there and because we what is the kind of growth we are seeing in the traditional channel as well?

**Radhika Piramal:** Hypermarket and E-Commerce are the two fastest growing channels in our country, not just for luggage but also for other categories. We are happy to participate in that growth. It has nothing to do with discounts or pricing. E-commerce and hypermarkets are the two newest types of distribution channel in our country. Hypermarket has been in our country for maybe around 15 years while E-Commerce made a meaningful entry during last 5 years and they are experiencing a great growth boom and we are fortunate to be participant. Thank you. Next question please.

**Moderator:** Thank you. The next question is from Mihir Manohar from Capgrow Capital. Please go ahead.

**Mihir Manohar:** Thanks for taking my question. Just wanted to understand given there is a high growth which is coming in the entry level segment so how are we trying to differentiate ourselves from the competitors in this specific segment?

**Sudip Ghose:** Products do not differentiate much from each other as our warranties are better. We give a better product in terms of wheeling experience and our products are also advertised. Aristocrat is the only entry level brand which gets advertised.

**Mihir Manohar:** Do we intent to have a fight on private specifically in this entry-level segment?

**Sudip Ghose:** Entry level segment is a very price sensitive segment. Our focus is to make entry level brand profitable and keep brand gross margins closer to the company's gross margin.

**Moderator:** Thank you. The next question is from the line of Akash Manghani from BOI AXA Mutual Fund. Please go ahead.

**Akash Manghani:** Thank you for taking my question. Most of my questions are answered. I had one question on the working capital with last three financial years of FY2017 to now, the working to sales has been hovering around 20%, 2019 jumped significantly and you gave one reason the receivable part of it and the inventory. I would like to understand whether how much of this is a one-off and how much of it is due to hypermarkets growing faster or nature of market moving to a higher receivable, sort of a model.

**Radhika Piramal:** It is one off.

**Akash Manghani:** So FY2017 and FY2018 your net working capital of sales was roughly around 20% 100% of the sales, with this come back to 20% by FY2020 end?

**Sudip Ghose:** Yes, we are working towards it.

**Akash Manghani:** So I will take all of this FY2019 negative operating cash flow as a one off and hopefully goes back to what you have to do in FY2018. Thanks.

**Moderator:** Thank you. Next question is from Nidhi Agarwal from Angel Broking. Please go ahead.

**Nidhi Agarwal:** Thanks for taking my question. My first question is what is the addition to distribution network in the financial year 2019?

**Sudip Ghose:** Hypermarkets are opening stores in Tier 2 and Tier 3 cities and when in a small town a big store opens, the entire town shifts there to buy and we are getting quite a bit of traction over there. I feel that business will get back to normalcy after the elections.

**Nidhi Agarwal:** So earlier I think we may need thought 10000 touch points, has it increased to something, what is the number now?

**Radhika Piramal:** It remains more or less at that level, maybe some increase in hypermarkets as and when new stores are opened.

**Moderator:** Thank you. Next we have a follow-up question from Chirag Lohiya from Value Quest, please go ahead.

**Chirag Lohiya:** I have just one question. If you can get me understand what will be soft luggage as well as hard luggage growth for FY2019?

**Radhika Piramal:** We do not give a specific segment or brand or channel data.

**Chirag Lohiya:** Anyways it comes in your annual report are just one thing if you did not share it at this point of time.

**Radhika Piramal:** I am sure that you will enjoy reading the annual report.

**Chirag Lohiya:** Thank you all the best.

**Moderator:** Thank you. The next question is from Zahid Bagwan from CWC Advisors. Please go ahead.

**Zahid Bagwan:** Thank you for the opportunity. My question is around scaling up of Caprese brand. In the previous calls you had mentioned about adding dealers, hypermarket channels in Caprese but we were not able to match the price point of those channels, now with the value in Caprese in place, how are sales growing in those channels?

**Radhika Piramal:** Regretfully, we are still struggling for a meaningful place of Caprese in those channels.

**Zahid Bagwan:** Okay, so we do we have one more question. Do we have the same gross margins in value Caprese and Caprese?

**Sudip Ghose:** We are trying to do one of things like we launched Alia collection, which is the Alia Signature collection. It is a premium segment and it is doing very well.

**Moderator:** Thank you. The next question is from Sajan Didwania from Frontline Capital Services Limited. Please go ahead.

**Sajan Didwania:** Sir normally, we have seen that Q1 of financial year is the best for the company. But this year, Q1 is also the election is taking place. Are we seeing any change, any slowdown due to election?

**Sudip Ghose:** Such a huge election in seven phases, there is bound to have some impact but in our business marriage dates are very important. Last year, whole Q1 had about 28 marriages and fortunately, we have very good number of marriage dates post-election also.

**Sajan Didwania:** What type of negative we are seeing Sir?

**Radhika Piramal:** Let us comment during Q1 results call.

**Sajan Didwania:** Thank you.

**Shradha Sheth:** Sir just one question. If you could just tell us the plan on Bangladesh how do we plan to scale it up over the next 2 to 3 years? I believe we have already you double the capacity so how do we scale up over the next 2 to 3 years?

**Radhika Piramal:** I can only comment on the current year and we said that



this growth will continue. It is a big operational and managerial task to achieve this.

**Shradha Sheth:** And what is the capacity of Bangladesh out of the overall sales volume?

**Radhika Piramal:** For the last year, Bangladesh would have been 10%.

**Moderator:** Thank you. The last question is from the line of Nidhi Agarwal from Angel Broking. Please go ahead.

**Nidhi Agarwal:** Any new segment you are planning to enter?

**Radhika Piramal:** Nothing at this point of time.

**Nidhi Agarwal:** Thank you.

**Moderator:** Thank you very much. We have one more question in queue. The question is from the line of Ankit Kanojiya from Smart Sync Services. Please go ahead.

**Ankit Kanojiya:** My question was just a follow-up of that Bangladesh facility. I just wanted to have a our direction has to how are we currently dependant on China and do we see that dependency on China reducing significantly over the next couple of years so may be 4-6 quarters?

**Radhika Piramal:** We have seen the impact of continued buying from China on a gross margins in Q4, so we have seen what happens when import duty is high and when the rupee depreciated. It is import from Bangladesh also but we are not required to pay import duties on imports from Bangladesh under SAFTA. It is really important that we grow Bangladesh.

**Ankit Kanojiya:** So only Bangladesh or we are looking at other avenues as well?

**Radhika Piramal:** No, just Bangladesh.

**Ankit Kanojiya:** So it would be some where around 20% we see, 20 to 25%?

**Radhika Piramal:** It will not be 25%.

**Ankit Kanojiya:** Not be 25%.

**Radhika Piramal:** It will not be 25%.

**Shradha Sheth:** I think that is the last question. I would like to thank you and the entire team of such an interactive session. Any closing comments from your end?

**Radhika Piramal:** It was really an excellent H1 last year. Like our Chairman said that it was a disappointing H2. We are aware of the issues. We feel that it is important to get our gross margins back on track. If that means a slight deterioration in the sales growth, we are prepared for it because sales growth will come and go. Our brands are strong. If our brands are strong, we should be able to take price increases and we should be able to negotiate with the vendors. If we have a strong and sustainable gross margins, this company will prosper in the long run. We demonstrated over the last two years that overall sales growth is not an issue. We want to work on margins in the immediate

short-term which is our focus. We do see some deterioration in the demand environment. Thank you all for participating and asking so many very excellent questions. I look forward to your participation when we do our Q1 call sometimes in July or August. Thank you.

**Moderator:** Thank you very much. On behalf of Edelweiss Securities that concludes the conference. Thank you for joining us. You may now disconnect your lines.

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