2nd February, 2023

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Mumbai – 400 001.	Bandra Kurla Complex,
	Bandra (East), Mumbai – 400 051.
Code No. 507880	Code – VIPIND

Subject: Transcript of Earnings Conference Call on Unaudited Financial Results (Standalone and Consolidated) for the quarter and nine months ended 31st December, 2022

Dear Sir/Madam,

In continuation of our letter dated 17th January, 2023, we enclose herewith transcript of the Earnings Conference Call held on 25th January, 2023 on the Unaudited Financial Results (Standalone and Consolidated) for the quarter and nine months ended 31st December, 2022. The same is also available on the Company's website at https://vipindustries.co.in/investors/Q3&9MFY23_Transcript

Kindly take the same on record.

Thanking you,

Yours faithfully,

For V.I.P. Industries Limited
ANAND CHAMPALAL DAGA
Digitally signed by ANAND CHAMPALAL DAGA
Date: 2023.02.02 14:16:51 +05'30'
Anand Daga
Company Secretary & Head – Legal

"VIP Industries Limited
Q3 & 9M FY23 Earnings Conference Call"

January 25, 2023

<u>MANAGEMENT</u>

MR. ANINDYA DUTTA – MANAGING DIRECTOR – VIP INDUSTRIES LIMITED

MS. NEETU KASHIRAMKA - CFO - VIP INDUSTRIES LIMITED

V.I.P.INDUSTRIES LTD
Earnings Conference Call
Jan 25, 2023

Moderator: Good evening, ladies and gentlemen. A very warm welcome to the VIP Industries Limited Q3 & 9MFY23 earnings conference call. From the senior management we have with us today, Mr. Anindya Dutta – Managing Director and Ms. Neetu Kashiramka – Chief Financial Officer. 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 assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Anindya Dutta – Managing Director, VIP Industries Limited. Thank you and over to you, Sir

Anindya Dutta: Good evening everyone. Thank you for taking your time and joining the call. I'm assuming all of you have received a copy of the presentation and would have had the time to glance through it. I'm just going to take you through some of the highlights that I have mentioned in the presentation. At the outset, I'm quite happy to announce a good set of results. Our growth continued to be at a high, we had a 32% revenue growth over last year and even when we compare it with base it is quite impressive at 22%. Q1 FY23 saw a 5% growth thereafter in Q2 FY23 scaled it up to 25% and we now (Q3 FY23) continue to be at 20% plus. In fact, the volume growth on the business has been also quite good i.e. 25% year on year and almost 18% over base. This kind of volume growth is happening on a completely altered supply chain at VIP.

The revenue performance that I spoke about. If you would have noticed is quite well-rounded. It's good across brands and channels. Talking about brands first, you would have seen some exciting launches that happened in our portfolio during this quarter. Skybags did a FIFA collection which did very well. In VIP we had a Highlander which is a rugged hard luggage. In Carlton, we launched a couple of premium soft luggage range and icing on the cake was our launch in Caprese with a range of products by Manish Malhotra. Not only the launches, the activations has been very strong, FIFA was activated with advertisements using endorsers as Kartik Aryan and many other celebrities. You would have seen some of these activations in Mumbai. We tried to go quite high **decibel on it**. In fact, Manish Malhotra launch was far bigger than just the volume, but it was more to drive imagery on the brand, and I would believe this is the beginning, we will have much more coming up on Caprese as we go ahead. Overall at VIP, premium portfolios has started to kick in as we had gone into a very high on driving the value portfolio. That was one key point on Q3.

When I talk about channels, once again all channel has played its role in the growth. In fact, not only the revenue growth, but also adding the strategic element and the tasks that each of the channel has to do. General trade is leading us into driving penetration and accessibility. It increased its town penetration by 80 more towns in this quarter. Now we stand at about 942 towns. We are aiming to be in every town which is 50,000 plus population. Equally, we have come back to 443 EBO's, this does not include the 42 EBO's which are under fit out right now. Hopefully we'll cross the 500 mark which we have taken the target for the year before 31st March. Pre COVID the highest store count was 485. In modern trade, we had some challenge and pressure due to in Q1 FY23 because of the future group issue that had kicked in and it's still there but the good news is that modern trade is moving beyond its expected numbers in the year and also above its base without future group and in addition to that by the end of December a large part of the future group stores that got shut has started coming up. Just to give you some broad numbers, there used to be 279 big bazaars stores and today almost 235 stores are open i.e. 3/4th of those stores have come in, and therefore that's going to hopefully help us in the coming quarter we were strong in these stores and we should continue our dominance and our relationship with the stores and channel.

Along with Modern trade, E-commerce, has also fired well, though this is where we don't think that we have reached our full potential or we are ahead of what our expectation is, so there is a lot that's going on and would continue to happen on e-commerce. On a side note we also have launched our direct to consumer (D2C) website and this has kicked in about four weeks back, so we are live and have started to get green shoots on the whole D2C business of Caprese. International business is also doing quite well in its own way. Our strategy of going deeper in our high potential market seems to be working and the growth that we are seeing is largely coming from lesser number of countries, but far deeper. For example, as of now, in UAE we are starting to get double digit market share in chains like Carrefour and Lulu. So that was on channels.

If I briefly talk about our category performance. Hard luggage continues to dominate in the recent past, but we have started seeing some change of that in terms of soft luggage coming up and with our supplies picking up in soft luggage, I think that's quite promising. Backpack in particular is looking quite well for us in Q3 FY23 as well. Overall good revenue growth and like I started by saying this is completely on a remodeled supply chain and I would like to give you some numbers there. Currently, 73% of our volumes in Q3 FY23 were supplied by our own manufacturing facility in India and Bangladesh. In a way, this has been the highest ever ratio reported in any quarter. Our capacities as of right now has increased 65%. Our own manufacturing capacities have increased 65% since pandemic and this year we would be investing almost Rs. 100 crore in this financial year only to increase our capacities. Not everything of this has been spent, but in terms of **actioning** the spends and increasing the capacity is underway. This is almost equally split between India and Bangladesh in terms of Rs. 50 crore reach. We would have added almost 200,000 square feet of manufacturing space in since FY20. All this is leading to good gross margin sequential improvement of almost 1.3% and Y-O-Y improvement of 0.5%. This is largely happening on account of raw material prices and thankfully ocean freight.

Overall, in terms of our pricing and realization, we've been positive. In terms of fixed cost expenditure, I think it has been in line with our increased revenue, increased business, advertisement expenditure increase is a conscious decision and I think that's an investment that's going very well into our brands and for our future. Overall, EBITDA margin flow through from above has been lower, one large reason other than increasing in advertisement is the provision we did on all the future group doubtful debt that's almost taking out 1% out of the EBITDA (The provision we took was of Rs. 6 crore). Lastly, I think we expect positive demand environment to continue in the coming quarter. We hopefully would continue on our growth trajectory to end the financial year on a good note, and in terms of concerns there is the COVID situation in China which erupted suddenly. We have high dependence on China. However, it seems like it is passing off quickly. Our teams are working on mitigating the risk and we are preparing for not only Q4 FY23 but also preparing for a very big Q1 FY24. So that's underway with this. Thank you. I conclude my opening remarks and I open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Karan Khanna from Ambit Capital please go ahead.

Karan Khanna: So my first question is on your gross margins. So I think they continue to lag as against your expectation of 50% to 55% range, which you've highlighted in the past. So is it fair to assume that the majority benefit because of cooling off in raw material prices is yet to play out in your margin?

Anindya Dutta: Yes.

Karan Khanna: And second as a follow up what I wanted to understand is that so you have 443 EBO's today. Can you help us understand the split between VIP and Carlton EBO's?

Anindya Dutta: VIP and Carton EBO is not part of our strategy. We are not doing Carlton EBO separately. We have done a few as an experiment. Our strategic grid is, company owned and franchisee model and the split there is 160 and 283, respectively.

Karan Khanna: So you think that there is room for improvement in cost efficiency when both VIP and Carlton EBO can be clubbed in one in certain geographies where you have both the EBO in the same location?

Anindya Dutta: They are extremely few, so therefore that's not something that we are looking at it. So separately there are few that we had done for Carlton and maybe yes, there could be opportunities but we are talking in the order of magnitude of single digit numbers.

Karan Khanna: So what I'm trying to understand is that despite roughly 10% differential in gross margin versus your nearest domestic competitor, I think your EBITDA margins are largely in line with your competitors, so in light of this, what are the initiatives which you could take to further drive cost efficiencies?

Anindya Dutta: Yeah, so I think we're more benchmarking our business and our P&L from that point of view. Revenue growth is absolutely important. Investing behind that growth in a more sure footed manner which is building our supply chain and strengthening that is absolutely important. We have a mix of brands and other than the value brands, the other brand needs to be advertised both in the form of brand building advertising as well as transaction building advertising which is more ecommerce. So one is in relation to competition, one is in relation to what is the right thing for the business and I think this is in the right direction. I think as the scale goes up some of these ratios will start playing up better, and that's what in the long run one is looking for.

Karan Khanna: So my second question is on the e-commerce vertical, so we've seen that last quarter, e-commerce was 22% in terms of revenue contribution and this quarter it is 13%. So I understand there is some seasonality also in this, but can you help us understand if there has been any change in the market share in the e-commerce?

Anindya Dutta: So to answer the first question, you're right there is a strong seasonality in the sense that maybe more retail property driven. So the big days and all that are really big for e-commerce, so that's not only for one company but for a larger sector or industry, the quarter 2 is far bigger in the year as far as e-commerce is concerned. So e-commerce overall gain salience in overall market during quarter two for luggage industry. So to that extent, if you have lower share in a sector which is gaining salience you may tend to lose overall share but if it is for that quarter it would even out over a period of time.

Karan Khanna: And the last question is for Neetu. If you can help us understand what's the balance receivable from the future group and what was the deferred tax income that was credited to the P&L. If you could explain that and the lower current tax rate during third quarter.

Neetu Kashiramka: Yeah, so the lower tax rate is on account of the receipt of dividend from Bangladesh which we are in turn giving it back to our shareholders and therefore we get the tax benefit and that's why the effective tax rate is going to be around 18% to 19% for the year.

Karan Khanna: And on your future group any balance.

Neetu Kashiramka: We have around Rs. 12 crore of exposure.

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

Tejash Shah: My first question is generic one, so if you can touch upon the overall demand environment with specific observations if you have any, on sub trends like premium versus mass and Metro versus Non metro and last one on how is the seasonality playing out as in most of the categories we are hearing that by the time December came, third quarter, had a very tough time so if you can touch upon the sub trends as well.

Anindya Dutta: So, on the demand part the demand seems to be good throughout the quarter three and it's getting driven by the same cohorts that has driven the industry in the past, like increased travel, expenditures on weddings. We are also seeing things like a backpack and all that is slowly possibly getting more **year** around kind of purchase and there is repeat happening. So overall the demand seems good for the industry at least in the near future. While, one is reading in the news and seeing there are questions getting raised in the other sectors, I don't see it right now for our industry in the immediate short term. In terms of geographies, yes, there is a higher demand in Tier 2 & Tier 3 and downward cities, It's very measurable on **my** business, but qualitatively we are getting a sense of that. That maybe is also coming from the unorganized shift to organized. Having a better play there or a bigger play there with more dominance of unorganized in the Tier 2 and down pop strata cities. Did that answer your question?

Tejash Shah: Just wanted to know with China opening up, are you seeing or are you picking up any early trends of unorganized also bouncing back with China sourcing also getting sorted as we go.

Anindya Dutta: Honestly, not seeing a trend, but yes, keeping a watch out for that because that could be a possibility if not a major jump, but it will start fueling what was not fueled so well. So keeping a watch out but no early signs right now.

Tejash Shah: And last one with the volatility that we have seen in margins in the recent past, how should we go for like penciling margins for this year and if you can give some color for the next year as well, what will be guidance around margins?

Anindya Dutta: I can't give you a definitive number, but it seems in the right track. I think the fundamentals that we have been talking about and what is there on the presentation, continues to be pointing towards a better margin environment going forward in the coming year. The overall commodity and raw material prices are softening, the ocean freight is much lower than before, so it may not have kicked in into the business as of now, but it will as we go ahead. So on one side, the tailwind is prices coming down on the other side the headwind is also the mix and the value category growing and the unorganized sector pushing the growth further so there will be some kind of set off happening and it's difficult to predict that part because the volatility is more there and margin is a result of that. What's happening is we are pretty sure clear that we will want to have a good balance between margins and share and not trading off one for the other and therefore we will have to pick and choose our battles depending on how the environment is. So between 50% to 53% is what we would try and keep the shift on is how I stand committed.

Tejash Shah: And the last one on mainly clarification. Ma'am, you said that tax rate for this year will be 18%, and did I hear correct?

Neetu Kashiramka: Yes, you're right.

Tejash Shah: And then it will normalize by next year.

Neetu Kashiramka: No, it will be in the range of 18% to 20% because we will continue to do this.

Moderator: Thank you, the next question is on line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: My first question is on the Caprese brand. So just wanted to know what price points are we targeting when we are looking at significantly scaling up this brand and also which channel will we be targeting to scale up with that.

Anindya Dutta: Yes, I think it's a very important question because it's something that we are starting of now. So somewhere the Caprese brand may have been going towards, let's say, a price point of Rs. 1000 and below. We are definitely looking at the mid premium and the slightly above range, so anywhere between Rs. 2000 to Rs. 4000 range is what will be the mid part of what the brand should have. Once we get enough scale, we'll also do something which is above Rs. 5000 as well. So I won't say we are shifting from A to B, we are just repositioning ourselves to what the brand started with, where there is a larger void where there's a play of great design and great brand and therefore there is a value creation happening. So that will be, let's say, a sweet spot would be about Rs. 2500 to Rs. 3000 if I was to narrow it down some. That's on the brand and the pricing. In terms of channel we are looking at more direct to consumer in all form to begin with as we create penetration. So it's not only the e-commerce portals, but that's why we have launched our D2C website and we've done all the preparation in terms of back end to enable its scale up, so that will be another key go to market tool. We could also be looking at, some pilots going on where we are looking at exclusive experience stores where we would bring in the Caprese premium experience to the consumers. But as I said that the pilot stage if it works, commercially, that's something that we could scale up in a big way in the coming future.

Bhargav Buddhadev: Secondly, just wanted to know in terms of what has been the progress in terms of backward integration. So we were looking at manufacturing trolleys and wheels subsequently to further make ourselves more competitive. So where are we in terms of our game plan?

Anindya Dutta: I can't tell you concrete stuff right now, but that's something that's on. There are couple of pilots that has happened on that in terms of understanding of what model will work, but you will see me talking about it or rather doing it in the coming financial year. I think we are more focused on making **sure that** availability and the whole supply chain was hugely stressed in terms of scaling up to the demand and with every going quarter, the demand is higher than what we expected and so therefore that has been the big focus but as we scale as we cross that peak in the coming quarter, which is Q1. These are some of the priorities that will be taken on in a big way.

Bhargav Buddhadev: And lastly, on the e-commerce bit, I believe we are number 3 in terms of market share on the e-commerce side, which is lower as compared to offline. So any key learnings from some of our competitors where we can sort of take clue and sort of implement them to increase our market. Or we want to continue to dominate offline and be a third or the second largest player on the online platform?

Anindya Dutta: So I think number 3 is something that I see it as but you're right that there is no definitive data to corroborate that but one thing I am sure that we do not have fair share, whatever share I have in the other channels, I don't have that, and I definitely don't have leadership in e-commerce. So whether it is number 2 or number 3 is not so important, I think what you're asking and the answer is that everything we are doing is to make sure that we strive and get first to our leadership market share and then to aspire for the fair share within that channel.

Bhargav Buddhadev: So what are we doing to sort of boost up because essentially we believe some of our competitors are spending a lot to acquire traffic. So are we going to go into that direction or we sort of focus more on product launches to create a differentiator?

Anindya Dutta: No, I think we're doing all that is required as I said so therefore if there is spends and it's all about the intensity of spend and not about whether one is doing that or not. So whether within the portals like Amazon or Flipkart, are you spending more on performance marketing so you would have noticed us feeding our brands through thematic advertising and other digital mediums but you've not seen competition doing too much of advertising in other mediums, till about quarter three and possibly most of that was getting into e-commerce. We are looking at that or rather we have kind of made our plans to balance it out slightly more in favor of e-commerce going forward, so we will increase our intensity of spends in e-commerce with the other part is portfolio and pricing as well, so that is continuously happening, the pivots are the same, the continuity and the intensity is important, and as we are going we continuously increasing that. So it's not about starting something it's more about increasing the intensity of what you're doing.

Moderator: Thank you, the next question is from the line of Manish Poddar from Motilal Oswal AMC. Please go ahead.

Manish Poddar: I actually just wanted to understand three set of questions. One is if I look at the manufacturing. So now 73% is own manufacturing. What is the target for FY 24-25?

Anindya Dutta: So this 73% is of what sales has happened, how 73% of that has been manufactured in house. So in terms of pure sourcing, we are looking at in house split of about 60% in the coming year and roughly about 20%-25% will be outsourced within India and maybe have about 10% to 15% at the outer limit this is including Caprese from China. That's the rough break up, but it's not a limiting thing, so I think depending on what is making more commercial sense the splits can get altered.

Manish Poddar: And so would it be right understanding, if I look at the delta change in manufacturing from Pre COVID till now. Even if you are saving at least what duty arbitrage is there, a large part of that has got deteriorated by the mix of higher share of aristocrat is that how it is?

Anindya Dutta: Yes, and also the fact that this is the time that the ocean freight and the inflation was very high.

Manish Poddar: But would a larger part be the mix part rather than the inflation part? That is what I'm trying to understand.

Neetu Kashiramka: Maybe 70% mix and 30% other factors.

Anindya Dutta: But we can examine this closely and come back, but this is our immediate or intuitive judgment to you.

Manish Poddar: OK, just two more questions. One is on this future retail store, how many stores are we reaching now? Because you said you're reaching out 3/4 of the stores and I think earlier we were doing 400 stores. So how many those do we reach now?

Anindya Dutta: We reached to everything that is open. What I was telling you is that under the banner of Reliance out of the 279 Smart Bazaar, which is the Reliance banner is 235 stores and I reach to all the 235. As and when they are opening the stores, they intend to open all the 279 back

Manish Poddar: OK, so effectively from beginning of year, which was about 45 stores. Now we are reaching to 235 stores.

Anindya Dutta: You're right.

Manish Poddar: OK, and just one bookkeeping Neetu maam just this insurance, the balance payment. When is that expected to come across?

Neetu Kashiramka: Hopefully in this quarter.

Manish Poddar: So there is no contingency or anything like that. It just the timing of the thing is the difference.

Neetu Kashiramka: Yeah, so it's in its last stage.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: I wanted to know when you increase your manufacturing, how much can gross margin expand? Because you will have other manufacturing costs which will come and sit in the P&L? So just on the material side the expansion should be a lot more.

Anindya Dutta: So therefore the comparison is versus not manufacturing and buying from China. So the labor cost advantage and the duty advantage is largest, so it is more compared to our earlier supply chain where we were buying from China. Today we bring in the raw material, make it in Bangladesh and bring it in India. The duty is not there so there is a 15% advantage in the raw material part of it, which is like you see about 50% of our business. So that's definitely an advantage. Now there is a labor cost advantage, which could be offsetting with increase in trade or other areas. So straightaway there is this advantage that is there in manufacturing at least.

Tushar Sarda: So I mean, what kind of gross margin will you target? I'm assuming that will you set up the facility you will prefer to manufacture yourself, given all other things are equal under the cost in China really come down.

Neetu Kashiramka: So like to like basis if the raw material prices are same for both China and Bangladesh, we will have a 3% to 4% benefit. If all the other factors remain the same.

Tushar Sarda: What kind of gross margin one would look at in three years down the road when things are normal, right now the recession is distorting all the numbers.

Anindya Dutta: I think then going back to about a 55% is what we have put as an ambition. We are goal seeking that and I think it's all about putting the right strategy at the right time in place to inch up there along with share and growth.

Moderator: Thank you. The next question is from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.

Nihal Jham: So couple of questions from my side. First on the E-com channel, as you aggressively target to scale that up, what is your experience till now, in terms of the margins this channel gives us, because ideally if you look at a lot of the other categories, there is a lot of discounting and a lot of old season product which ends up getting sold which ends up impacting the margins you make on this channel. So has your experience till now of the 20% sales that we've seen been similar or we have seen a different experience and going forward also, we expect this channel to be non-margin diluted.

Anindya Dutta: So you're right, there is a pressure on margins in some of channels which is trying to gain volume through an attractiveness on price. However, when you see for my business, the net margin when I take out the direct selling cost in other channels using promoters and all that I don't see the difference to be so big, in fact in some quarters the e-commerce margin is a tad better only, so I think in the long run this is something that is going to not only stay but will grow significantly. It will be a game of getting more scale here and also to start the premiumization journey here through marketplace operation where the pricing is ruled by the brands and you are listed everywhere. So it's a journey and I think this is not a channel that we had a start at all. So compared to not only within the industry but others, we are catching up and what I see in the long run is that this channel will become large and a major channel for by consumers to buy VIP products and therefore we have to get the margin and share both right in this channel.

Nihal Jham: Got that point just to follow up on this was that currently what are the channel parity practices that you're following? Do we have a different range of SKU itself? We are trying to keep the pricing similar across our franchise EBO's and the distribution channel.

Anindya Dutta: So, increasingly, the e-commerce has a separate set of products, because that's where the channel conflict is highest because of price discovery is the easiest for anybody. But within our other physical channels also, there are ranges which are different that does add to some complexities, so we're trying to find the right balance between where we would like to see exclusives and where we want to see a common range. So it's a mix of both. There are some in non-ecommerce, there are some ranges which are exclusive for that channel and the rest is covered. This mix is only slowly changing in favor of more common products.

Nihal Jham: My last question was on Caprese. Do we still have the target of maybe wanting to reach Rs. 500 crore of top line in this segment in the next couple of years?

Anindya Dutta: Well, I can't put a number to that, but what you're saying sounds too aggressive. See it's a very fragmented market so if you look at anything in three year's time I would like to take an ambition of being in a fragmented market. The brand of choice the market leader in this, now that translates into what crore is something that we'll have to work out and I will come back or maybe take as a management target.

Nihal Jham: Just a follow up, if I may that if I look at this category, which would say the ladies handbag segment has not seen any brand really scale up beyond the Rs. 100 - Rs. 150 crore market. So what as per you has been the limitations and what are the aspects that we are targeting to improve which can scale us to be a much bigger brand, not specifically maybe the number I mentioned

Anindya Dutta: I think go to market has been a limitation in this because this product needs a close experience as people buy and you also haven't seen very large companies coming into this category. So I think ecommerce direct to consumer is changing that and also to that extent we may not have been fully able to leverage our national network in the bags business into this, which possibly all other players may not have. So go to market is possibly one key point on which scale up or a brand share in the category can go up all. But you're right that globally this isn't a very fragmented market, so I don't expect consolidation at all to happen. It is a very large space so therefore even getting within such a fragmented market, a high share, or market leadership will be a very strong ambition to take.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh: Would you be able to highlight what would be the price differential for the unbranded luggage which is arriving from China, vis-à-vis say a mass branded luggage and has the price differential between the two declined meaningfully over the last two years.

Anindya Dutta: No, I don't think I will be able to give you a specific answer on that because we haven't tracked a particular product and compared it with this because two products are not alike, I mean, it is the features, it could be quite differently costed and differently priced. But once again I would think there are all reasons to believe that the gap is narrowed. Clearly, a large part of the bag making is high labor cost and the per hour labor cost in China, Bangladesh and India is significantly in favor of first India and then Bangladesh. Bangladesh would be most favorable, so to that extent that is definitely the difference that should change. The other thing is productivity even if at the source in the raw material price is same to all the three then there is an advantage to India and Bangladesh over both labor cost and today we are seeing productivity is coming at par with no major difference in technology. I think productivity is over a period of time, at least in my Bangladesh unit, I'm getting closer to China productivity already.

Akhil Parekh: And this is supplementary question to that is like we have diversified our supply base and we have also found vendors of India and Bangladesh. What are the challenges unorganized players might be facing from diversifying their supplies, because I believe that they were largely dependent on China prior to the pandemic and because of the disruption at in China, they have not been able to get enough supply, so any specific challenges which they might be having and they might not be able to get their supplies from India and Bangladesh vendors.

Anindya Dutta: Well, they need to then have manufacturers in India and Bangladesh who are scaling up to supply to the unorganized sector. So that's the challenge there is no ready capacity, so that it could. it will take over. So this could be fueling many setting up a manufacturing. That's something that I'm saying more as a theoretical answer to your question, the only way the supplies can happen and the challenge for them would be to not finding vendors in India or who has the capacity to give them the products that China was giving them.

Akhil Parekh: Sorry if I understood correctly, you're saying because they don't have manufacturing base and that's why they're not able to get it from Indian vendors.

Anindya Dutta: Yeah, that's right. We did actually base in the past, that's why the whole industry was going to China

Akhil Parekh: On the gross margin front, the value segment continues to do well. Say hypothetically Aristrocrat & Alfa reaches like 40% mark of the total sales. Will we still be able to achieve that 50% to 53% of gross margin?

Anindya Dutta: Yes, I think it should, given that our manufacturing efficiency is going up. The benefit of that will start kicking in. Right as we go along, so I think it will go even if Aristocrat reaches to the mark that you're saying but as I said that these are things that are not with one change that will happen. I think it's a gradual change that needs to happen and one is pushing things in that direction.

Moderator: Thank you. The next question is from the line of Harsh Shah from Incred capital. Please go ahead.

Harsh Shah: So my question from a longer term point of view. When I look at your presentation it shows that the organized sector share has increased from 45% in FY19 to 56% in FY22, but when we see 3 - 5years from now, we're only expecting that to go to 60%. And secondly, even if we look at the penetration, we've covered a lot of ground in the last 3 years, our penetration being 90%. So when we look at our growth in the luggage space over next 3 – 5 years. If you were to exclude exports, how do you see our domestic luggage space growth over the next 3 – 5 years?

Anindya Dutta: I think the industry in terms of value terms should easily grow anywhere between 15% there about CAGR over the next 3 – 5 years underlying volume growth could be lesser, but I mean this could be the aggressive side of the growth that I would put, but expecting a 15% CAGR over the next 5 years, given the India's context should not be something that we could be shy of.

Harsh Shah: So 15% is something which you are targeting for the industry and not for the company. We can grow at a higher at a higher pace given the kind of building blocks we haven't play.

Anindya Dutta: Yes and depending on the category, what share we have. But if the industry is growing at that pace and given our share ambition that we would have and continue to have it will define our growth prospective.

Harsh Shah: OK, and then secondly, within the backpack space how do you look at the mass segment and our participation in presence there? Because much of the unbranded player plays there and that's the big opportunity for us but on the on the flip side, the margins there are quite low. So how do you think at the mass value in backpack space?

Anindya Dutta: Actually in every category there is a low priced segment and it is always the large largest part of it. So that's why every category looks like a pyramid, but this is not where we would want to dive into the low priced ones to begin with the lower margin. I think for us there is a huge opportunity to grow in the mid segment itself and that's what we are targeting to begin with. But yes, there will be something that we will do to trigger people to upgrade the low price to the mid-price.

Harsh Shah: OK, so we are not looking to replicate what we've done in Alfa, aristocrat in the luggage space in the backpack space.

Anindya Dutta: Well, in simple terms, if I was to answer its no.

Moderator: Thank you. Next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: So you people are targeting a gross margins of around 52% to 53% in FY24. So what would be the EBITDA margins if you achieve those gross margins?

Neetu Kashiramka: 20%.

Ankit Babel: OK, and if I remember correctly you were also planning a turnover of around Rs. 4000 crore by FY 26 which is around of 25% CAGR. So can we see that traction of 25% revenue growth from FY24 onwards?

Anindya Dutta: I don't know which remark you are talking about I don’t remember of having spoken about FY 26 on this. I think it's been more a directional one in terms of the growth and I maintain what I said in the past. Today the market is too volatile for us to have a good and a safe prediction for that long. Yes we are predicting where it could grow more to build supply chain and all that point of view and there we are being aggressive so that we build supplies. Given the good growth rate, but I don't think it's fair to right now discuss in detail about whether it is Rs. 4000 crore, or whether it is Rs. 3500 crore, or Rs. 4500 crore for that matter.

Ankit Babel: OK, but what are the export opportunities you people are forseeing in the coming years?

Anindya Dutta: As of right now, we are more focused in going deeper into the market we have. We had roughly about Rs. 100 crore business in exports in pre COVID and I think we are much more than that coming back in this year itself. I'm closing on. So we will take very aggressive growth on this, but compared to what is the size of the opportunity, it is not going to be like we're wanting to take a share of the global market and stuff like that. As the focus is very large India and the India growth opportunity but all the markets that where we have by either right to success or already a good foot in the door kind of a thing is where we're going to go deeper so it will be an aggressive growth in it that will take in the coming years. Maybe we'll look at about or Rs. 250 – 300 crore business in 2 year's time.

Ankit Babel: OK and so lastly, what was the advertisement cost in Q3 FY23 versus Q3 FY22?

Anindya Dutta: **Rs.** 29 crore now versus Rs. 9 crore last year

Ankit Babel: OK and as a percentage of sales. What kind of advertisement will you target going forward?

Anindya Dutta: 5% to 6%.

Moderator: Thank you. Next question is on the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: So the first question is on modern trade contribution pre COVID it was 30% and now it's 29%. Can you help us understand how much was the future group contribution back then? How much is it now in Q3 FY23 and given that these stores are opening up, should we expect a sudden bump up going at Q4 FY23 or not?

Anindya Dutta: I'm just getting the numbers for you, but before that yes, we are seeing the stores which are becoming operational fully. When I say fully means that in its full glory our sales are coming back so there should be a big bump up that we should get, but also what we saw when future group stores were down in the catchment area, the other stores were able to take the drop in this and that was a conscious strategy. So I won't expect to have this as a complete consumption growth, but it will get into a new equilibrium within the catchment area. As far as your first question is concerned on what was the contribution of future group contribution modern trade was 44% pre COVID as of now it's about 20%-22%, but we can contact you with more numbers once we look into this, right now I am confirming is 44% versus 22% as we speak now.

Pulkit Singhal: You have a dominant market share within this group, I mean that continues even now.

Anindya Dutta: Yes, it continues in these stores. In fact, in modern trade because of this future group issues of the modern trade team was pushing to gain in market share in weaker accounts like Vishal Mega Mart, so we went strong in Vishal Mega Mart and some more entry into some more regional chain, so that's also looking good much better than what we were before in those weaker chains, but in the largest change we continue to have a good share.

Pulkit Singhal: And the amount that is still pending from future group supposed to be written off for the future purpose.

Neetu Kashiramka: So as of now we don't have clarity because there are some stocks lying, which is coming back so we will get clarity only maybe by the end of next quarter.

Pulkit Singhal: And second, based on the Raw Material cost, I thought that the benefits were supposed to play out 3Q FY23 onwards because prices peaked up in Q2 FY23. So if you can just help us understand where are the raw material costs right now versus what you have booked in third quarter? So we get a sense of how much of benefit can flow through. Obviously, I understand you'll pass some bit of it based on the market etc. but then just to get. A sense of where we are?

Neetu Kashiramka: So we got only 1/3rd of the benefits, so the benefits started actually coming only in the last month of the quarter.

Anindya Dutta: Also the fact that as of right now versus what we have with us in terms of stock and the prices and how luggage industry works is whatever is from China we got to cover a little ahead in time because of the Chinese New Year and all. So maybe about 4% - 5% overall weighted average price could be lower in the market today versus what we are operating on what we are using. But don't hold me to this number I think it is something that we can check on this and come back to you.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now have the conference for what Mrs. Neetu Kashiramka from VIP Industries for closing comments. Thank you and over to you, ma'am.

Neetu Kashiramka: Thank you everyone for joining the call and Happy Republic Day. Any other clarification you can connect us.

Anindya Dutta: Thank you everyone.

Moderator: Thank you very much, ladies and gentlemen, on behalf of VIP Industries Limited. That concludes this conference. Thank you for joining us and you may now disconnect your line.