15th May, 2023

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**Subject: Transcript of Earnings Conference Call on Audited Financial Results (Standalone and Consolidated) for the quarter and year ended 31st March, 2023**

Dear Sir/Madam,

Please find enclosed herewith transcript of the Earnings Conference Call held on 9th May, 2023 on the Audited Financial Results (Standalone and Consolidated) for the quarter and year ended 31st March, 2023. The same is also available on the Company's website https://vipindustries.co.in/investor/investor_con_call_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: 2023.05.15 18:44:08 +05'30'

Anand Daga
Company Secretary & Head – Legal

# VIP Industries Limited
# Q4 & FY23 Earnings Conference Call
# May 09, 2023

**MANAGEMENT**

**MR. ANINDYA DUTTA – MANAGING DIRECTOR – VIP INDUSTRIES LIMITED**

**MS. NEETU KASHIRAMKA – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER - VIP INDUSTRIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 & FY23 Earnings Conference Call of VIP Industries 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 'star', then 'zero' on your touchtone phone. Please note that this conference has been recorded. I now hand the conference over to Mr. Snighter Albuquerque from Adfactors PR – Investor Relations Team. Thank you and over to you, sir.

**Snighter Albuquerque:** Thank you, Jacob. A very good evening to everyone and welcome to the Q4 & FY23 Earnings Call of VIP Industries Limited.

From the senior management, we have with us, Mr. Anindya Dutta – Managing Director and Ms. Neetu Kashiramka – Executive Director & Chief Financial Officer.

Before we begin the conference call, I would like to mention that some of the statements made during the course of today's call may be forward-looking in nature, including those related to the future financials and operating performances, benefits and synergies of the company's strategy, future opportunities and growth of the market of the company's services.

Further, I would like to mention that some of the statements made in today's conference call may involve risks and uncertainties. Thank you and over to you, Mr. Dutta.

**Anindya Dutta:** Good evening, everyone. Thank you for taking your time for this earnings call.

I'm happy to share the results with all of you for Q4 and for the overall financial year. I am sure you would have got a copy of the "Results" and the "Presentation" that we had uploaded.

As you would see in that, we have continued our growth momentum for the year. Q4FY23 witnessed revenue growth of 27% over the same quarter last year and for the overall year, the revenue growth was at 61%. And when we compare that to even the base year, which is FY20 pre-COVID the growth stood at a good 22% for the year.

I would say an overall a very good bounce back for the business post the setbacks of the pandemic, and I think more importantly, we have emerged much stronger in our fundamentals. As you would see, gross margin for Q4FY23 saw the impact of both what we've been talking about our fundamental cost efficiencies that we have been driving quite hard through the year, along with the much-awaited softening of all input cost. Gross margin for Q4FY23 stood at 58%, the gain of almost 843 basis points sequentially and about 459 basis points gain compared to the same quarter last year. The gross margin for the full year stood at 51%.

An efficient fixed cost management led the flow through of the efficiencies generated in direct cost into our EBITDA. EBITDA for the year stood at 15.8% at Rs.331 crore.

We have to take the final hit of the Future group outstanding, the charge-off in terms of doubtful debt was about Rs.23 crore for the year, without which our underlying EBITDA for the year would have been at 17%.

We also had an unfortunate incident of fire that burnt one of our factories in Bangladesh. While it has a full insurance coverage for the quarter and for the year, we have booked an exceptional loss of Rs.47.2 crore on account of the loss due to fire. Therefore, the PBT before exceptional loss was Rs.41 crore and Rs.229 crore for the quarter and for the year respectively. And the final PBT post the exceptional loss stood at Rs.197 crore for the year and a loss of Rs.6.4 crore for the quarter.

I think to summarize the performance for the year, it was a great success in accelerating not only the revenue growth but gaining back share in value segment and more importantly driving transformational changes in our supply chain which has and will continue to yield superior cost efficiencies for the future. As we have highlighted before, our own manufacturing has scaled up very well both in India as well as in Bangladesh.

We have invested approximately Rs.100 crore in manufacturing CAPEX during the year and we plan to further invest Rs.200 crore in the current financial year to build our own manufacturing capacities keeping in mind the demand for the next couple of years. Not only in the back end, but we have also significantly strengthened our go-to-market and channel operations.

Our exclusive business outlets have crossed the 500 mark in FY23 and this is significantly ahead of what we had pre COVID, and we continue to have aggressive plans to take this to as high as 800 EBOs during the current financial year.

Our traditional trade distribution has crossed the 1,200 town mark in FY23 and we intend to continue our penetration and driving effective coverage to a target of covering all 50,000 population towns by the middle of next financial year.

When we come to the modern trade channel, we all know that it had a huge setback due to the closure of the Future group accounts. But not only the channel covered for the loss of stores during the year and made up for the growth through other chains. But now with all the closed stores being fully operational under the Reliance banner, we will stand to have an advantage.

When we come to the eCommerce channel where we seem to have a competitive gap, I am happy to share that we have initiated an accelerator program. We have gotten onboard BCG, one of the best consulting firms in the field to build for us the right capabilities and muscles in an accelerated way for the future.

When we come to our power brands, I think each of our luggage power brands in the respective segments have done very well. We've invested behind them during the year. And if you would have noticed more recently, we have started strengthening our Caprese brand, which is in one of identified future growth areas, both in terms of its product portfolio as well as its engagement with consumers.

Looking forward, with the strength that we have built and a good demand environment, I am confident that the team at VIP will deliver consistently fast-paced and profitable growth.

With this I conclude my opening remarks and open the floor for questions.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Tejas Shah from Avendus Spark. Please go ahead.

**Tejas Shah:** My first question pertains to demand sentiment. So if I see historically our 4Q number usually tracks somewhere around 95% to 100% versus 3Q, and this is pre-COVID I'm talking about. And even if I see numbers of some of the hotel companies who have just reported numbers or airline, 4Q actually did better than 3Q for most of the travel-oriented companies. So just wanted to know how should we think about demand in our sector and how should we think about it going forward in the first half of this year?

**Anindya Dutta:** So I think the demand environment continues to be good. Everything that we track in terms of the lead indicators for demand have been looking good and continues to do so. So, from that point of view going forward, I think we will have the right environment for growth. There is a talk of overall slowdown in the economy, but equally there has been talk about its getting negated in many sectors. So while we could say the jury is still out, at VIP, we are pretty confident about the demand environment as well as our preparedness to make sure that we tap that.

**Tejas Shah:** And second on gross margins, so very noticeable improvement both sequentially and YoY. How should we think about gross margin in FY24?

**Anindya Dutta:** Tejas, I think I have maintained this that we are targeting to make sure that we are anywhere between 53% to 55% always, that's the intent. While the sequential gain has been very good for the quarter, but I think the competitive environment could emerge in a way where we want to balance margin growth and market share in a way that it works for all the three points, and therefore my guidance would be around 53% to 55% that we will continue to pursue.

**Tejas Shah:** And what could be that for EBITDA?

**Anindya Dutta:** The translation of that to EBITDA should be anywhere between 17% to 18% thereof.

**Tejas Shah:** Are we done on provision for doubtful debt on Future group or is anything left still to be done in FY24?

**Anindya Dutta:** No, I think it is done now.

**Tejas Shah:** Ma'am, we had some claim for the previous fire that we had, it was pending. Have we got that money?

**Neetu Kashiramka:** We haven't got that money.

**Tejas Shah:** Any update on this?

**Neetu Kashiramka:** So we are trying to get it. Hopefully, it should come in next two to three months.

**Tejas Shah:** Last one on Caprese if I may. When I look at our own presentation what we have released and you spoke about Caprese as a next growth driver, I just wanted to understand how are we placing the brand? At one point, we are tying up with global brand names like Disney and Emily Paris kind of franchisee. And then when I do channel checks, I find Caprese getting much more GT-oriented or slightly kiosk like modern trade strategy. So, just wanted to understand, are we making it much more mass oriented brand or we want to actually go EBO and premiumize the brand from here on?

**Anindya Dutta:** So the go-to-market strategy will follow. When I say go-to-market in terms of what you said in channel and in stores but fundamentally the brand is positioned to be in the premium segment, right, but not in the luxury or super premium segment. Yes, in the previous two years, we were possibly tending towards making it more mass but my strong belief is that there is a huge market and an opportunity in what we call as premium. So, between 2,000 to 4,000 ASP kind of a bracket is what we are looking at to play in.

**Moderator:** The next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

**Jinesh Joshi:** I have a question on the fire incident. So basically, how long will it take for the operations to fully resume at our Bangladesh plant? And secondly, if you can also quantify what is the extent of business loss that we have had in 4Q because of this incident? And one follow up which I have is with respect to our performance on the top line front. So if I look at our top line, despite the sequential fall of about 14%, our other expenses are up by about 4% even if I adjust the Future group provision of about Rs.12 crore-odd. So just wanted to understand what is driving this inflation and is there an element of one-off here?

**Neetu Kashiramka:** I'll take the second part of the question. On the expense side, since our revenue, if you see quarter-on-quarter, this quarter was the lowest and therefore operating efficiencies have not kicked in and the second part is on the Rs.12 crore of provision for doubtful debt so these are the two things which have made other expenses higher.

**Anindya Dutta:** Out of the Rs.23 crore doubtful debt, Rs.12 crore came in Q4FY23 only. Coming back to your earlier question on the fire incident and the impact of that on the business, firstly, I'm sure you know, but to reiterate, this is one of the eight factories that we have in Bangladesh. Undoubtedly the whole operation of this factory seized after the fire because it was burnt to the ground literally. But, we have very quickly covered that with a couple of things; one, an outsourcing stopgap arrangement within India; and also within Bangladesh what was in the pipeline to create future capacities which was to kick in slightly maybe few months later was accelerated and we have started those capacities in Bangladesh. So this factory in itself will take time to come back to be rebuilt. But in lieu of this, the space that we had and

other factories that are coming up have been made operational. There was a momentary Issue in terms of supplies for about four to six weeks which has been covered now and therefore the impact of that in all practical terms have been minimized in terms of any revenue loss because of that one factory production being shut.

**Jinesh Joshi:** I believe one of your peers entered into the premium category by making the soft launch on a D2C platform. So what steps are we taking to ensure that we compete effectively in this category and also given that the entry of this player, can it lead to a significant price realignment in the premium segment or you believe that the operating dynamics of the mass category are completely different and the strategy to compete on price may not work in the premium segment, just wanted your thoughts on this bit?

**Anindya Dutta:** There are very aggressive and robust plans in the mid-premium and premium segment that we have under the VIP Skybags and Carlton brand. So brand plans along with what we are wanting to do in terms of channel and go-to-market. I think they both come together to make sure that we have strong foils as far as the mid-premium and premium segment is concerned. I am cognizant of the fact that D2C and eCommerce opens up an area of easy entry for newer competition to come in and that's why, as I said in my opening remarks, we have decided to leapfrog as far as capability and competencies are concerned on eCommerce, which is not only what we see as marketplace eCommerce, but also as D2C business by VIP. So that's something that we have on the card. So, while we keep a very strong watch on competition and the progress that is happening in the overall industry, but there are effective plans to make sure that we counter any kind of competitive buildup that happens.

**Jinesh Joshi:** One last book-keeping question. This Rs.200 crore of CAPEX guidance which we have given for FY24, can you break it down between soft and hard?

**Anindya Dutta:** It is both in manufacturing sites as well as the plant and machinery for that.

**Neetu Kashiramka:** About 70% is soft luggage.

**Anindya Dutta:** Yes. So the larger part is soft luggage here in terms of the investment that will go in, when I say soft luggage, we include not only uprights, but categories like backpack and DF, DFT as well.

**Moderator:** The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

**Bhargav Buddhadev:** So my first question is, in the opening remarks you mentioned about BCG being appointed to accelerate market share on the eCommerce front. Is it possible to quantify in terms of milestones where do you want to reach in terms of market share, what is the timeline etc.?

**Anindya Dutta:** I am sorry, Buddhadev, this is a little too premature to get down to that level of specifics, but I would want to reiterate that the objective obviously is finally going to be strengthening our market share, the focus is usually on building fundamental competencies to become best-in-class as far as eCommerce operators and eCommerce business capabilities are concerned.

**Bhargav Buddhadev:** On the backpack side, you mentioned you're planning to sort of invest in manufacturing. A few of your competitors have launched aggressive pricing on the backpack, I mean, below Rs.1,000 MRP. So are we also looking at aggressively entering the segment given that the TAM for this is very high?

**Anindya Dutta:** Short answer is, 'yes'. We are looking at backpack for ourselves to be a very large growth area in the coming years including the current financial year. We are going to see the category in a much more holistic way across the spectrum of both pricing as well as various consumer usage of backpacks in terms of all segments within backpacks and that's why the commitment and the investment behind manufacturing ourselves as well as continue to source it from India as well as China.

**Bhargav Buddhadev:** And lastly on Caprese, just wanted to have your thoughts in terms of what is the milestone in terms of number of EBOs, shop in shop, etc., how are you positioning this brand?

**Anindya Dutta:** So right now in the short term, we are going to make sure that we have become a dominant eCommerce player in Caprese, that's the first milestone from a go-to-market point of view. In fact, even prior to that, we wanted to go back to the drawing board and work on our product portfolio, our positioning, our sourcing, and therefore the price points and all that, I think a large part of that has been done or at least we are feeling now at a good space there, we are taking the sole strategy and the fight into the market now. The first milestone will be eCommerce and D2C. In fact, for your knowledge, today capresebags.com is fully functional. We have had a lot of teething issues but now all that has been now behind us. It's a brand, it's a website that's doing, good business to begin with. Every day, hits are high. So, these are early stages, but that's the long term vision and the commitment there. And thereafter we will also look at creating experience on-ground with our products and our brands, which would mean EBOs and in concept stores but I can't give you more specifics on that side in terms of number of stores where, but things that are getting built there and maybe in subsequent quarters we could come back to you with more specifics on how we are going to look at Caprese but larger growth of Caprese onto overall business in VIP, I would think it would be visible more in the next financial year. This financial year would be more strengthening the foundation, creating the fundamental strength that is needed to really get into a very fast pace growth going ahead.

**Bhargav Buddhadev:** So, fair to say this year will be driven mainly by backpacks and growth on the premium side of your portfolio?

**Anindya Dutta:** That's right. And I think value will continue to grow because of the unorganized sector yielding into organized. And I think that will continue to remain almost with the similar amount of tailwind as much as it was in the previous year. So really speaking, what will happen is value will continue to grow, premium and mid-premium will join the bandwagon, right, and backpack is far more unorganized in the luggage sector. So there is the unorganized sector and overall growth of the category itself is very high and we got to just play it right in this segment.

**Moderator:** The next question is from the line of Piyush Khandelwal from Bank of India Mutual Fund. Please go ahead.

**Piyush Khandelwal:** So, firstly on this BCG expense that you mentioned, can you quantify, I mean, how much would be the amount and this is for how long?

**Anindya Dutta:** Well, I can't share right now expense related to this. The engagement will continue for almost the full part of the year, about 10-11 months, it will cover almost the full part of the year and they are going to partner us through the journey of building the capability as well as converting them into execution during the year.

**Piyush Khandelwal:** My second question is, with this increase in in-house manufacturing that we are doing, will there be any kind of further more efficiency on the working capital side that we can see, I mean, right now we are operating at what 90 days that you mentioned in a presentation, so any kind of further working capital efficiency that we can see because of this in-house manufacturing?

**Neetu Kashiramka:** Yes, definitely, we are looking at 15 days of further reduction on the overall working capital, so 75-days.

**Piyush Khandelwal:** And this is, I mean, by '25, '24, two, three years?

**Neetu Kashiramka:** In next 18-to-24 months.

**Piyush Khandelwal:** This will be majorly led by hard luggage or I mean soft luggage?

**Anindya Dutta:** It is in the mix of the business that it has and it will follow that. Our manufacturing footprint is increasing with our projected mix of business between hard and soft and we are setting up facilities keeping in mind what we project as the demand and therefore all the impact of those will be visible in the same proportion of how the demand will be.

**Piyush Khandelwal:** This 300 EBOs that we have outlined for this FY24, I mean, will this be a franchise-led or mix of FOFO and COCO?

**Anindya Dutta:** It will be a mix, but majority of this would be franchisee-led.

**Piyush Khandelwal:** Around 80%-85%?

**Anindya Dutta:** Right now, we are going with the mix of about 75:25 intended mix, but we'll have to play it as you go along.

**Piyush Khandelwal:** Sir, in your opening remarks as well you mentioned about this demand. If you can highlight, I mean, what kind of expectations you're looking for the industry growth let's say over next two to three years given this luggage sector especially doing well versus other consumption sectors, just wanted to get the sense on the growth rates for the industry?

**Anindya Dutta:** I think the underlying growth rate of the overall industry would be about 8% to 10%, but the organized sector will have an accelerated demand and that's the assumption and expectation. I think the organized sector will be at about anywhere between slightly upwards of 15% is what we are expecting to continue for the next few years.

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

**Nihal Jham:** One question was, you highlighted at the start of the call about the seasonality part and the fact that the quarter was good. Generally, is there any change in terms of how we look at Q3 and Q4? Only reason I'm asking that is because this quarter we saw many more weddings in terms of the wedding calendar, which is ideally supposed to be a driver for the business. So just from that angle, if you want to comment and if there is a change in the way the seasonality of the business is going to play out in the future.

**Anindya Dutta:** Just so that I have got your question right, you talked about the wedding calendar for Q1, I mean -

**Nihal Jham:** No, for Q4FY23, there were many more wedding dates versus Q3FY23. So maybe the expectation was that the revenues that we end up clocking should have been similar just based on that being one of the drivers to the business?

**Anindya Dutta:** Well, we can't correlate data here, but in our understanding Q3FY23 had more wedding-related purchase that we usually experience. So, it is more the festive season and the wedding which kind of comes together and that's how we see. The Q3 is getting more support from the wedding demand.

**Nihal Jham:** But irrespective of that, like if we have to look at the two quarters play separately, there is no change in the way you would expect that they play out in the future?

**Anindya Dutta:** When you ask that question, I just want to say that, for the coming year, Q3 wedding season looks better than most other previous quarters that we have seen. So we are far away from Q3 but this year Q3 will have the peak of festive season. It's slightly delayed than the previous year in terms of Diwali and the high number of wedding dates that we see for Q3 is slightly higher than the best that we have seen in the past.

**Nihal Jham:** While you've alluded to the BCG tie-up, I just wanted to understand something around that. You highlighted about Caprese becoming a dominant player in eCom and historically, we've discussed maybe from the value segment, it's not that attractive a channel. At the initial stages currently, do you have any

specific brands of the ones you have which will create a dominant share at this point in time in the online space or it will be the preferred ones to gain share on that channel?

**Anindya Dutta:** So, we are in the process of identifying land and more important areas where you set up the Greenfield manufacturing in India.

**Nihal Jham:** Sorry, I couldn't hear you clearly. Can you please repeat that?

**Anindya Dutta:** I said the CAPEX investment is both in India and Bangladesh. And as you rightly said, it will be a combination of Greenfield and Brownfield both in India and Bangladesh. In Bangladesh, in the same SEZ location where we are there, and in India, we are in the process of scouting for the location and thereafter the land or whichever way we find the right opportunity to establish a Greenfield or Brownfield in India. It's work in progress right now.

**Nihal Jham:** Will there be any soft luggage expansion in India as a follow-up to this question?

**Anindya Dutta:** Yes, there will be. So, most likely while we manufacture mostly in Maharashtra, we are going to look at for now up north for putting up possibly an integrated plant of both hard and soft luggage. Soft luggage will be included in this.

**Nihal Jham:** And as a follow-up, when we look at the top three players, so combined capacities as of FY24 end should be closer to Rs.4.5 crore of annual manufacturing units. So, can you talk about the current utilization? And if you can also comment on whether we can see a scenario where possibly for one or two years it could be extra supply or oversupply in the industry?

**Anindya Dutta:** Well, I can't talk about the industry, I can talk about VIP. And yes, we are building capacities, keeping in mind the next three years that we will need and we will activate the capacities as and when whichever year the demand. We have something called an (LTCP) Long Term Capacity Planning, that exercise we do twice in a year and we continuously look at a rolling period of three years to say what demand, which location, which part of the country, what categories and our creation of manufacturing facility is the output of that exercise which gives us what category, what quantity and what optimized location. So that's how we are progressing. But on your question of how the overall industry is going to be in terms of capacity and utilization, I would refrain from commenting on that.

**Nihal Jham:** And lastly as a follow-up, on manufacturing soft luggage in India. So we've seen a scenario where in 2000 manufacturing shifted to China, in 2015 manufacturing shifted to Bangladesh and now again we're seeing manufacturing shift back to India over the next few years. So, if you can comment on the unit economics how they differ in manufacturing soft luggage in India versus Bangladesh versus China?

**Anindya Dutta:** So China is becoming more and more expensive with the wage rate and more volatile and therefore from our perspective that's something that we would like to build in terms of our back-end ourselves.

And this is not to manage the volatility and the cost, but it's also about strengthening ourselves to overall be more competitive with China also someday for sure. In terms of India versus Bangladesh, there is a trade-off between the logistics cost and the cost of manufacturing in Bangladesh. India is increasingly becoming better in raw material availability and all that, I mean, not immediately, but overall in the in the longer run. So when I say the north facility, it makes sense to service parts of north which is more produced in north versus coming from Bangladesh so, that's the underlying concept of looking at. Wherever it is more optimized to manufacture to make sure the total cost of delivery to the consumer has to be optimized irrespective of the source and that leads to the decision of where we should have manufacturing.

**Nihal Jham:** On the insurance receipt for Bangladesh, by when can we expect that?

**Neetu Kashiramka:** As of now, we don't know because it's a process, but definitely it should take nine to 12 months, but we can come on this like exact timing dates maybe in a quarter or so, as of now it is in very initial stages.

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

**Akhil Parekh:** My first question is, like we mentioned that 70% of the CAPEX we will be doing on soft luggage, while we see that the industry is moving more from soft to hard luggage, and our numbers also reveal the same thing. So, any specific reason why we are expanding more on soft luggage instead of hard luggage?

**Anindya Dutta:** No, when you say soft luggage and hard luggage, it is the uprights, the suitcases that we are talking about. The other categories which are backpack, DF, DFT and also the part that we do for CSD which is outsourced. A lot of that is the capacity that when we in-source, one get a benefit, the other is soft luggage when I said it includes backpack and DFT.

**Akhil Parekh:** So it means that larger part of the 70% will go towards the backpacks and the DFT?

**Anindya Dutta:** Yes, you could put it like that.

**Akhil Parekh:** Second question is on the mid-premium, premium segment, right. As a percentage of sales is still stagnant if I look at it over last two years. And even though the international travel has fully opened up and we see the numbers are coming back to pre-COVID levels, are there any specific reasons why mass category continues to outpace premium, mid-premium segment?

**Anindya Dutta:** Yes, that is the unorganized sector, from which the organized sector is kind of getting growth. So, as the unorganized sector gets into the organized, it is more into in the value segment. It has a far bigger pool of growth because of the shift and therefore what is more important to see would be the growth rate and not the mix between premium and value.

**Akhil Parekh:** And lastly, did we see any impact of the heat waves in terms of demand during the first quarter of this year?

**Anindya Dutta:** You mean to say as we speak now in this quarter?

**Akhil Parekh:** Like any negative impact or any slowdown because of the increase in heat wave?

**Anindya Dutta:** There is nothing that we can correlate to the heat wave as of now on to the demand.

**Akhil Parekh:** Regarding the fire incident, If I look at it last 10-years this is the third fire incident. So are there anything difficult to comprehend like any lapses on our side, why this has been happening bit frequently than probably what we can expect from our company like VIP?

**Anindya Dutta:** Unfortunately, there is nothing common on them or neither in terms of the practices that we have. The factories have been built in the specifications of all fire safety and best practices currently in almost all our factories and warehouses. So I could only say that these are unfortunate incidents when we see seems to have a common thread but it does not.

**Moderator:** The next question is from the line of Manish Sonthalia from Motilal Oswal. Please go ahead.

**Manish Sonthalia:** I just wanted to understand what could be the peak revenue potential from this Rs.200 crore CAPEX?

**Anindya Dutta:** Well, one, we got to understand that this CAPEX is not for this year or just the coming year, but because there are Greenfield projects involved, so this we have a perspective of the next three years, including the current year, so FY'24, '25 and '26. But if were to convert the CAPEX that we are putting in right now, this peak CAPEX and capacity can go up to about Rs.3,200 crore to Rs.3,500 crore.

**Moderator:** The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

**Ankit Babel:** A couple of questions. Sir, you mentioned organized sector is expected to grow at around 15%-plus for next few years. What would be our growth rate in FY24 and 25?

**Anindya Dutta:** See, in the core luggage category, we would expect to grow faster than this because this is the growth rate we are talking about largely in the luggage segment. So, maybe we would always strive to gain share, so maybe a few percentage points more is what we will target. But we are also looking at growth areas which are Caprese and growth areas which are international in the slightly mid-term to longer-term. So, overall the growth guidance could be ahead of 15% for sure.

**Ankit Babel:** But, can it be like 20%, 25%?

**Anindya Dutta:** The ambition is to grow it at about 20%.

**Ankit Babel:** Just wanted to understand your maths of operating margins, I mean, in Q4, your gross margins were 58%, but operating margins was around 17% after adjusting to the Future group provision. Now for the next year, you are guiding for similar operating margins of around 17% to 18%, but at a lower gross margin of 54% to 55%. So, can you just explain that, I mean, are you expecting any operating leverage or lower other expenses?

**Neetu Kashiramka:** This will be basically due to operating leverage. The overheads will not grow in line with the revenue growth and that benefit will get into the bottom line.

**Ankit Babel:** Okay, but, what I could recall was that earlier you people were targeting for some 19%-20% kind of EBITDA margins. So that is still on cards or you are just trying to be conservative here or you feel that 17%-18% is the normal margins?

**Neetu Kashiramka:** See, the mix is changing, right?

**Anindya Dutta:** It's good to be conservative and deliver better. But right now, if you ask us, yes, that's what we would like to say. But yes, internal ambition would be In the range of what you're saying.

**Ankit Babel:** Lastly, how is the export opportunity, what's the visibility there, I mean, you guys were targeting to be dealing with Walmarts and all those large pharma stores and overseas markets, so what's the status of that?

**Anindya Dutta:** I think we have clarified in a few calls back that somewhere this thought came into the conversation that we were looking at Walmart and OEM, that's not on the cards, I would like to clarify that, but international business more from a branded business point of view is what we would want to do. I think we have taken initial steps and it has worked very well over the last financial year. If you see even the contribution to the total business, it has grown and internally we know that we've done highest ever in international business in FY23. FY24 also, we will continue to build again strong foundations, when I say foundations, we are more looking at instead of expanding many markets, we are trying to go deeper into the markets that we are present in looking at having more than a foothold maybe, worthwhile market share in some of these markets and to invest in those markets to grow market share which is the level one strategy. In the Horizon-2 as far as international business is concerned, we would then look at European and US market but may not be in this financial year FY24, but we will prep for that so that we could have a big growth impetus coming from international business in FY25.

**Moderator:** The next question is from the line of Jigar Jani from B&K Securities. Please go ahead.

**Jigar Jani:** In your presentation, you have mentioned that your capacity will increase in FY24 to 2,150. So just want to understand, this is only for the. Brownfield CAPEX or this is the total expansion that will come on line after this CAPEX?

**Anindya Dutta:** This is our own manufacturing, which includes Greenfield and Brownfield, but this is not third-party, this is our own manufacturing numbers that we have put there on the presentation.

**Neetu Kashiramka:** Also, this is expansion initiated. So basically what will happen is some of the capacities will start in the next year, for example, we are building and then finally by the time the commercial production starts, it will be the next year, so which is FY25.

**Jigar Jani:** So by FY25 you expect to have this own manufacturing capacity in place?

**Neetu Kashiramka:** Correct.

**Anindya Dutta:** This capacity getting operational will be in FY25, yes.

**Neetu Kashiramka:** Will be started

**Jigar Jani:** Ma'am, could you highlight what is the current capacity utilization in the 1,400-odd capacity that you have?

**Anindya Dutta:** Currently, the capacities are almost 100%. 1,400 is not fully got commissioned as of now and that's why we had put those capacities. Going forward, we would have about 80% to 85% capacity utilization is how we have built the capacity. The capacity plan is then keeping in mind 80% to 85% utilization and rest is the headroom for peak seasons.

**Moderator:** That was the last question for today. I now hand the conference over to Ms. Neetu Kashiramka from VIP Industries Limited for closing comments.

**Neetu Kashiramka:** Thanks, everyone for joining this call. And in case you have any other questions, you can connect. Thank you so much.

**Moderator:** Thank you. On behalf of VIP Industries, this concludes this conference. Thank you for joining us and you may now disconnect your lines.

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