

**BRAND CONCEPTS LTD**

**Q4 & FY22**

**POST RESULT CONFERENCE CALL**

**Management Team**

Abhinav Kumar – Whole Time Director & CEO

**Call Coordinator**



Strategy & Investor Relations Consulting

**Vinay Pandit:** Ladies and gentlemen, thank you and welcome all of you to the Q4 FY22 Post Result Conference Call of Brand Concepts Limited. Today we have Mr. Abhinav Kumar, who is the Whole-time Director and CEO of the company.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements, which exemplifies our judgment and further expectations concerning the developments in our business. These forward-looking statements involve risks and uncertainties that may cause actual development and results to differ materially from our expectations.

Brand Concepts Limited or Kaptify Consulting undertakes no obligation to publicly revise any forward-looking statements to reflect the future events or circumstances. A detailed disclaimer is also present in our presentation.

To begin with Mr. Abhinav Kumar will quickly brief us through the performance for the quarter, for the year. And he will also tell us a bit about the business, post which we'll open the floor for Q&A. Anyone who wishes to ask a question during the process will have the option of using the raise hand that is present right next to the name on the right-hand side. Any specific questions that you wish to ask, but aren't able to ask, you can put it us on the chat box.

So over to you Abhinav, I would now request you to quickly brief us about the company and about the performance for the year.

**Abhinav Kumar:** Hi, very, very good afternoon to all our shareholders and all our guests present over here. This is Abhinav here. And I do just start by briefly explaining the company -- though I'm sure everybody is aware about what Brand Concepts is, but just for the sake of reiteration and for the sake of anybody new joining in, just giving a brief of what we are.

So, we are essentially accessory fashion retail company dealing in three broad categories of Travel Gears, Small Leather Goods, and Women Handbags, these are the three categories that we deal-in. And under these categories, we have various brands, some our own, and mostly it's the model is on licensed brands. What licensing does essentially is, it gives you the rights not only to market and distribute the products, but also the rights to design, develop, and manufacture the products, right. So that's our model.

We outsource our manufacturing to various factories, who do contract manufacturing for us. And we bring in the products from the edge and we retail it across all the segments. So e-commerce of course is one of the most important markets for us. After that we have our own stores- EBOs.

We have premium branded stores of our own under the master of Bagline and it could be a specific brand store also. So we have Tommy Hilfiger as one of our brands, and we have Tommy Hilfiger Travel Gear exclusive stores as well. Then we also supply to all the major department store chains, like Shoppers Stop, Lifestyle. Then we have a dealer and distribution network spanning across a lot of cities and states in the country. So that's who we are.

I'm happy to present the Q4 results in front of you guys. And I'm sure everybody would have gone through the results. So I will just quickly glance through it. So for the quarter ended, we've done INR 26.70 crores of sales, so almost INR 27 crores of sales, and the net profitability before tax has been INR 1.58 crores that we've been able to generate out of the sales.

And for the year ended we stand at INR 86 crores revenue. Needless to say, I would love to put a point over here that this is one of the highest turnover that the company has done and I in fact congratulate all the shareholders also. That in spite of this being a COVID year, COVID in spite of affecting the quarter one very badly. In the last three quarters in Q2, Q3, and Q4, we have been able to bounce back very well and post such kind of figures.

If I talk about quarter-on-quarter solid performance. In Q3, we've done about INR 26.73 crores, Q4 we've done INR 26.54 crores. It’s pretty much similar, unlike a lot of other companies, where they have seen a drastic drop in Q4, because in January again the operations were disturbed due to the COVID third wave, which was the Omicron wave. Thankfully, the wave did not do too much of damage, and our government and everybody was able to control it in a much more efficient fashion.

So February and March saw a bounce back in the markets. In spite of January being a little muted, we were still able to almost touch parallel to the Q3 of this year. Vis-à-vis last year, if we see, we've done almost more than 30% growth. So, Q4 for 2021 was about INR 19.0 crores and Q4 in 2022 is more than INR 26 crores. So 38% growth over last years Q4.

If I talk about half year performance, our H1 we were at INR 32.9 crores and from there, H2 has been INR 53.27 crores, which is a 62% sales growth from H1. From INR 2.55 crore loss in H1 to INR 33 crores of sales delivered in H2, we've delivered INR 3.58 crores of profit against the revenue INR 53 crores. So, that's been the overall performance.

If I talk about our Channels, so one of the most prominent channels more than 50% of the revenue contribution is coming from the digital channels, which is your e-commerce marketplace plus we do a lot of business directly also with most of the e-commerce companies. We have successfully established a very good marketplace business as well. So put together e-commerce has done very good for us. And so that thing now easily be the largest channel.

I believe that it's a very healthy divide, 50% is digital and 50% is still offline. So that's a very healthy divide for us. And we expect that this will continue for the upcoming years as well.

So, yes, I think there are certain hits and misses that I would like to share with everyone. So hits of course, I would say that we have a positive performance in revenues. Our offline stores/channels also are showing a very, very positive upsurge in sales. We have to remember the fact that during the second wave of COVID, it was only online which was operational, so offline was completely shut.

So hence, the percentage of sales of e-commerce in H1 was disproportionately very high. So in H2, in the second half of the year, all the offline channels also have started doing very well. And we focused on those channels and grown them well, which eventually for the entire year brought down the e-commerce percentage to just over 50%. So offline has been showing very positive surge in sales.

We undertook a lot of activities or major changes to improve the working capital cycle, which has definitely shown a very positive sign. So, our working capital cycle has been improving. Hence, our overall cash flows have been improving, which has helped in achieving these kinds of figures.

I'm sure there'll be a lot of questions on ratios and everything, which I'll answer once the questions are there. But, yes, again, coming back to the hits and misses. So better efficiency in the working capital cycle. And there's definitely certain misses as well. So supply chain issues have been quite prominent, it's an industry wide phenomenon not only with us but most of the players in this industry, because of China not being very conducive right now with multiple lockdowns happening. We think supply chain has been definitely disrupted, so it's fair to say that we've in fact not been able to supply or meet the entire demand, which was there. So the demand was much more, hence, there is a potential loss of sales pertaining to that.

So, yes, I think with this, I would like to sum up the Q4 and H2 results. And I would love to have more time for question-and-answers.

**Question-and-Answer Session**

**Operator:** Yes, I think we have a question from Mr. Kewal.

**Keval:** Yeah. Thanks. Hi, Abhinav. Just a few questions from my side. First, is that how many EBOs and MBOs are you having currently?

**Abhinav Kumar:** See MBOs would be quite a lot, because all your large format stores are also multi-branded outlets. So agile and then dealer distribution is another multi-branded store. So we will be present across more than 300 point of sales easily across the MBOs and EBOs. But from EBO perspective, we have about now 28 operational stores, we closed down three stores during the whole COVID period, because either the stores were not doing good or the mall was not ready to budge and we had to take a call.

So, in fact, we were lucky that we shut only two or three stores during that period. And we've recently opened a new store in Quest Mall, Kolkata. So, including that now, we have about 28 stores.

**Keval:** Okay sir, in these 28 EBOs, how many are company owned, company operated, how many are franchisee owned/franchisee operated?

**Abhinav Kumar:** Bulk of it is franchisee owned. Almost 20 stores are franchisee owned, eight would be about company owned stores.

**Keval:** Perfect. Got it. And in next five years how many EBOs and MBOs or point of sales are you targeting?

**Abhinav Kumar:** So, I'd say in the next five years, we want to take the store count to a 100. And just preempting a question answering that in the first row, our model will always be that 75%, 80% of the stores would be franchisee owned, and 20% to 25% stores, which are key stores would be company owned.

**Keval:** Okay andhow many MBOs would you target in the dealer distribution network, because I guess that would be a major chance right?

**Abhinav Kumar:** If I talk about it with further couple of brands being added. All those strategies coming into the picture, I think we would target more than 1,200 stores easily. And this I'm talking only in the dealer distribution network.

**Keval:** Got it sir. Got it. Sir, next question is regarding the Indian luggage industry right. So it's basically an oligopoly industry in the organized market with three major players VIP, Safari, and Samsonite. So, what is your strategy for penetrating into this market? And how much percentage of the total market share are you targeting?

**Abhinav Kumar:** All right. So sir this is a market where -- yes, it has been dominated by these traditional luggage and Travel Gear space. But as we see, India (a) it's a young country; (b) fashion is catching up very, very fast. So we don't term ourselves as a luggage company or Travel Gear company, we call ourselves as fashion accessories company, right. So, the strategy here is very, very simple, that any other player, they cannot become a fashion brand. We aspire to introduce fashion brands at various price points. And that's how we aim to penetrate the market.

Just to quote an example sir, and I do that quite often this particular example that even till late 90s, if you remember, watches were a timekeeping device, the watch industry was dominated by just one player, which was HMT. And the son used to get a watch from his father, more often a gift from his father, which used to be an HMT, that was the state of watches. And 10 years down the line, and 15 years down the line, watches became a fashion accessory.

And today, everyone has two to three multiple watches in their wardrobe, right. So you will have one steel for your formal events, you will have a rubber belt for probably casual outings. So, we look at where the watches industry today is in terms of fashion. And this is what is going to happen to every category, every consumer category that we know.

**Keval:** Got it sir. But Abhinav sir just to understand from you, even as in terms of fashion brand, or something that even let's say VIP has a brand called, let's say American Tourister, or Safari has a brand called Genie, where they are targeting the youth, where they have colorful luggages, baggages which are fashionable, so is this the only point where you are mentioning regarding a fashion brand or is there something else also that you guys are providing?

**Abhinav Kumar:** Sir, whether they had Genie or whether they have any other brand, we have to understand that our strategy is from a licensing point of view. Tommy Hilfiger, well it is a $10 billion brand, established over more than 30, 35 years, right. So somebody wanting to become a fashion brand overnight or suddenly, if you want to change your strategy from being a traditional luggage company to a fashion company and start targeting aspiring consumers, it's a little difficult task, it's a tall task, right. So, from that perspective, another aspect over here to think about is that this industry is such a huge industry and all we talk about is there are just three players in that industry.

Whereas if you look at any other category, if I talk about shoes, apparel, watches, every industry at every price point, you will be able to probably name 10 brands. So there is a scope, there is a play of many more players over here, many more brands over here, and consumers have become much more discerning, much more demanding. So we see from that perspective that this strategy for us is going to easily work for the next five, seven years. Fashion is a one-way street. So if you've moved from Peter England to Louis Philippe, you will never go back to Peter England.

**Keval:** Correct sir. I had one small observation. So I had done a Check-in Samsonite stores, and VIP, and Safari store. So since Samsonite is an upper hand brand, right. So what I understand is that once a customer shifts towards Samsonite, he then doesn't purchase luggage from VIP and Safari.

**Abhinav Kumar:** Absolutely.

**Keval:** Right. So similarly do we have brands like that, that once they enter into other brands, they would not prefer to step towards the lower end or they would have some loyalty towards it. Are you planning something like that?

**Abhinav Kumar:** Yes. So very good question, Kewal. So, let me answer it in this way, okay. Tommy, we have a position at a particular price point, at a particular brand positioning, right. So it's a little exclusive brand. I wouldn't say it's luxury, it's a premium brand. It's not even a super-premium brand. So if you see how we priced it, we’ve priced it just below Samsonite. In India, Samsonite has been considered like if anybody who moves up the ladder, and they find that okay, finally have reached Samsonite, and this is like the best. So pricing above Samsonite was a little bit of a challenge for us and hence as a strategy we priced it below Samsonite.

But at the same time in terms of pricing, we are obviously higher than a VIP or an American Tourister. So what do we want to do with Tommy, we will not bring Tommy down either to the AmericanTouristerlevel or we will not take Tommy probably to samsonite level. So, Tommy will continue operating in this kind of a price bracket and it will be a gradual increase. So, we launched a luggage, which was the most expensive luggage in our stable, and that luggage costs INR 1,20,000 per set, nobody else sells that high premium luggage, it's an all-metal luggage, right. It was a limited collection that we launched just before COVID. And now, it should be that we've run out of that stock. And now again talking to factories that can help launch this again.

Having said that, for us the strategy would be that if we have to take on the price point of VIP or American Tourister, I'll get another brand, again a fashion brand, which has the ability to price, get priced at that level, it'll still be a good brand, it'll still be a globally recognized brand, right, but price is lower. So it'll be a more inclusive brand rather than exclusive brand. And similarly, tomorrow, once we feel that there is enough consumers in the market willing to pay above the Tommy price point also, I'll get another brand over there, which will be higher priced than Tommy, so it will be a different brand play at different price points.

**Keval:** Got it sir. Sir, I also wanted to understand that, so you're basically doing contract manufacturing. So is it only from India or you guys get it from Bangladesh and China as well?

**Abhinav Kumar:** Not Bangladesh, China yes infact, two years to two and a half years back from the Travel Gear perspective or from luggage perspective, we were 100% import model. So nothing was getting developed in India. But actually, our teams have worked very, very hard. We worked very hard with few factories in India, to get them to understand the quality level that we would want, the design level, the design inputs that we would want. So doing all of that and thankfully now, India production has started to come.

**Keval:** So sir what percentage of our manufacturing would be in India and what percentage is from China?

**Abhinav Kumar:** Our target is that for next year at least, India production starts giving us 50%. And the idea is that in the next couple of years, if we can take the India production to 75% to 80% and 20%, 25% would be those image pieces, those high workmanship pieces, which will still continue to come from China.

**Keval:** Okay, got it sir. Sir, what are the terms that you're seeing between soft luggage and hard luggage's right now, which has more preference these days?

**Abhinav Kumar:** Hard luggage is definitely taking much more precedence.

**Keval:** So can specifically polypropylene or polycarbonate?

**Abhinav Kumar:** So polypropylene (PPE) is getting sold more, because it's a tough material. So the quality of that material is very good. And it doesn't break and while the mold is pretty expensive the per unit cost of that bag is quite low and hence a lot of PPE is getting developed in India, but we are also now developing our own mold in terms of PPE.

We are launching a PPE luggage, but our main play is on polycarbonate (PC), which is much more susceptible to take much more better designs. So whether we want a matte finish and whether we want a particular grain to happen in it, PC would be used. It's a little more expensive than either PPE or ABS but the durability of PC is very high. So it's virtually unbreakable. PPE is more hard, so it doesn't mold very easily, but PC is very flexible. So I hope I've been able to answer that.

**Keval:** So this year you plugged in INR 86 crores of top line in FY22. What is the target for the coming five years given the lower base and our industry itself is growing at a very high rate in India?

**Abhinav Kumar:** Right. So I don't see any reason to why we can't grow, so we are targeting the 30% plus CAGR in the next three years.

**Keval:** Yes, looks like since last year you are planning to also increase EBOs and MBOs, so your touch points would incrementally increase?

**Abhinav Kumar:** Yes. So it will be upwards of 30% CAGR that we should be able to clock.

**Keval:** Got it sir. And just, if you can just elaborate on your team also other than you who are the key people running the store?

**Abhinav Kumar:** So under me directly in terms of operations, there is a gentleman known as Mr. Nabendu Chakraborty. He's been with the company now for three years. And he comes with an extensive experience in retail. He's worked with companies like Shoppers Stop for about 11-12 years. Then he was with the Landmark Group in Dubai. From there, he joined the Future Group in India. And from Future Group, he moved on with us.

So Nabendu is the one who, handles the Retail and Operations. And under him, then we have Channel Heads. When it comes to the team, I've been strengthening the team since last year. So we have a Marketing Head who's recently joined us last year, she joined us and has very good experience of not only understanding a brand, but the digital medium. So we are very, very focused on driving the entire digital medium in our company. She's leading that whole digital transformation.

So yes, in terms of the team we have, I would definitely say that I'm very, very happy with the current team right now. We have a very, very good team. Even in our Board of Directors, I don't know, we had made an announcement, we have a gentleman known as Mr. Govind Shrikhande who was recently joined our Board of Directors, he is the Ex-MD of Shoppers Stop, right. So of course, and that senior in the retail industry, joining us on the board actually speaks volumes about not only our relationships, but the potential we have and the kind of work that we are doing in over here. So under his guidance, there is a lot of new structure and new learning that we're having. So yes very, very happy overall.

**Keval:** Got it sir. And sir the last thing, I wanted to understand how the trajectory of the company will plan out. So will we totally focus on top line growth, or we'll also focus on bottom line. So is the focus on taking the market share only or focusing on the bottom line as well?

**Abhinav Kumar:** No, no obviously focusing on the bottom line as well. So while obviously once you're targeting high growth, there are certain expenses, which you incur along the way, right. But I have always believed in a policy that, while we keep experimenting, I will never bet me short on any experiment. So we need to see a healthy bottom line growth as well. So our bottom line growth target is higher than our revenue growth target.

**Keval:** Got it sir. Thank you so much, and all the best for the coming year.

**Abhinav Kumar:** Thank you, Kewal.

**Operator:** Thanks, Kewal. Anyone who wishes to ask a question may raise your hand or if there's an issue at your end, you can unmute and ask your question.

**Devdutt:** Hi, this is Devdutt.

**Operator:** Hi, Devdutt.

**Devdutt:** Hi, Abhinav, how are you?

**Abhinav Kumar:** Good, good, good.

**Devdutt:** So Abhinav, when we had last spoken my main concern with Brand Concepts was that you're too reliant on Tommy like, what happens in that scenario, if say, Tommy pulls out tomorrow, then what do we do? And how do we tackle that? So that's question number one.

And number two is that you said that you're planning to add new brands in the presentation that's what your vision is, right? So how do you plan to do that? Have you identified any such brands and are you approaching them? Are there any kind of developments out there, if you could just enlighten us on the same?

**Abhinav Kumar:** So, to answer the first question, yes, you are absolutely right that today Tommy is the bulk of face, and it was sort of a conscious decision a couple of years back Devdutt. We wanted to first perfect one man one model very well. And once we've done that, that is when we're looking at adding more brands to our portfolio, because it becomes a lot simpler to add, once you have a success story, it becomes much easier to add new brands.

So, over the next five years, obviously, the aim is that we bring down the concentration or the percentage contribution of any one brand to an acceptable level, that's the overall perspective. Again, having said that, what would happen if Tommy pulls out or any brand for that matter. So, let me put it in this way, Devdutt, brands like Tommy or similar like brands which we are opening up. These brands are much more sensitive to how you handle this brand. How do you market the brand? It's a $10 billion brand, right? They will not bother about INR 100 crores, INR 200 crores of sales here and there, right. So for them, it is very important to identify the right company to whom giving the brand as a license is okay. That's the most difficult part, most difficult decision that they make. Once they have made that decision, it's like a marriage. It doesn't end so fast.

That's how the case is everywhere across the world. So, India is still at a very, very nascent stage. And it gives us as Brand Concepts a definite advantage, because we are at a pole position. We have the early mover advantage, there is nobody like us today. And again, if you look at, if I have to explain what Brand Concepts is, we are just like Reliance Brands, we are like Madura Brands, it just that they are in apparel and I'm in accessories, that's the difference.

So Reliance doesn't own all these brands, but they have license agreements, franchisee agreements, and it continues for a very, very long time, right. So again, another example for Tommy, watches. The licensee is Titan Industries, right? So you have such kind of licensees, you have such kind of pedigree, these brands don't change their partners very easily, number one.

Now on your second question, you actually cornered me well, so yes, we have identified a few brands. I wouldn't be able to take the name of the brand, but we're pretty much in an advanced stage of the contract. So hopefully, by everybody's good wishes here, we should be able to sign up a new brand pretty soon. So we're in talks with almost two to three brands and the idea here is very, very clear.

We will not be looking at an Indian brand, number one. Number two, so the brand has to be an international brand well established in India and widely present also. So the recall has to be very good. So once a brand fits all these criteria's, we get proposals for brands every day, right. There are a lot of brands that I keep saying no, because they don't mark all these criterias. So the two or three brands that I right now spoke about one of them, we are at like mid stages

So that's where we are with the brands, hopefully. So this year, one of our targets is that we will add one to two new brands, two new brands, at least we will sign this year. I hope I've answered your question.

**Devdutt:** Yes, I understood. So then like these brands, would obviously, it took you a while to build Tommy, right like it took you about four to five years to actually get Tommy to do the kind of numbers that they're doing today. Obviously, getting a new brand on board, it won't take you that much time, because that was the first time you were doing this. So it was kind of like a learning curve or learning experience. But so hypothetically, where do you see Tommy over the next three to four years, and this 30% CAGR that you've mentioned that you would like to do, what percentage of that can come from Tommy and what percentage are you intending to get from, say new brands?

**Abhinav Kumar:** So yes, you're absolutely right that the new brands we will not take as much time. The initial development period for any brand is about eight to nine months, right. You get into design, you get into understanding the brand. The design guidelines are shared, products are at first, the Computer Aided Design (CAD) is made, approvals happen. So the initial cycle is a little long.

Once we are pass that initial cycle, post that the growth has to be or would be very steep, right. So it will climb quite fast. So it's actually a very, very good question from the perspective that in the next three years, where do we see Tommy vis-à-vis the other brands. So Tommy, I think in Travel Gear, we still have the potential to grow upwards of 20% CAGR. In Small Leather Goods, I think, which is a fairly heavy, large business for us, and smaller business in fact, we are the category leaders. So we have been the number one brand in Shoppers Stop, Lifestyle and across everywhere.

For the past three, four, five years, we've been the number one brand and that category continues to amaze me, it continues to grow like anything, but I would still peg that growth anywhere between 15% to 20%. And in the new brands, I definitely see that we can, I would love to initially, I think I'm not talking about the first year. So if I take second year as the base year, we can easily grow at a 40-50% CAGR for the next five years.

**Devdutt:** Okay, okay. Understood. And sorry, one last question. So noticed that the interest cost is quite high. And I assume that's mostly from working capital requirements for Lifestyle and Shoppers Stop. So how do we see this going forward like do you plan to do much about this like how do you plan to reduce interest cost, because if you just had to reduce the interest cost by half, your profits can grow exponentially like this is the something I've seen. So any thoughts on that?

**Abhinav Kumar:** Yes, so if you see, the opening long-term plus short-term liabilities, all loans put together for this year was about INR 29 crores right, and we've closed at INR 24 crores, so we've actually paid off almost INR 4.82 crores of long-term plus short-term debt, right. And hence, you see a difference happening between Q3 interest costs and Q4 interest costs also, right. So in spite of growing not taking on any further debt, we've still been able to repay this kind of debt, which means that the overall model of cash flow, what we figured out has started working very well for us, right.

So our cash flows model has definitely increased. So going forward, the outlook is that yes, we aim to reduce the interest costs, not only as a percentage, but also as an absolute figure. You will see those costs coming down. And from a growth perspective it is relying more on non-fund-based financing activities, financing activities of LCs and all of that, rather than only fund-based activities. And then of course, once the time is right, you start meeting your growth requirements through equity. So, I hope I've been able to answer your question.

**Devdutt:** Yeah, yeah, that's all from my side. Thank you so much, Abhinav. And great set of numbers by the way.

**Devdutt:** Thank you.

**Unidentified Analyst:** I'm very, very pleasantly surprised onwards and upwards.

**Abhinav Kumar:** Thank you. Yes.

**Operator:** Yeah, anybody else who would like to ask a question. Raj, you may go ahead.

**Raj:** Congratulations on good set of numbers.

**Abhinav Kumar:** Thank you, Raj.

**Raj:** Yeah, so my first question would be where does Tommy as a brand and in terms of pricing place us versus VIP and Samsonite?

**Abhinav Kumar:** Somewhere between 20% to 30% more premium than VIP and we are about 15% to 20% odd lower than Samsonite. So if I may give you an actual indication in terms of a cabin size luggage, so VIP under their brand has Skybags also, which is in even lower price point, right. And in fact, their major growth story is coming from Skybags.

So, VIP is a brand if you see, you will get a cabin for somewhere around INR 4,000 to INR 5,000 for a cabin. Samsonite cabin is anywhere between upwards of INR 10,000. So INR 10,000-12,000 is what we get a Samsonite cabin for. And Tommy cabin average price you will get it for about INR 7,000 to 8,000. So that's how we are priced today, American Tourister and VIP Skybags these are all about say INR 5,000, INR 4,000. Safari then comes at about INR 3,500. So, that's the kind of pricing strategy which is there.

**Raj:** Right, right. Okay and what could be the potential market size or the target market size for Tommy luggage as well as for men's accessories?

**Abhinav Kumar:** See according to certain studies, pre-COVID this was INR 24,000 crore industry, which includes your backpack, includes your luggage, includes all of it. So, the industry size is about INR 24,000 crores. Out of those INR 24,000 crores, INR 4,000 crores was sort of organized with VIP, about INR 1,800 crores Samsonite, South Asia group including American Tourister and everyone, they were about INR 1,200 odd crores. Safari was about INR 600 crores and the rest INR 400 crores, it was us, Delci and all these brands Giordano whatever other brands over there, we figured out in that.

So overall, the industry sales are very big. If I talk about, what are the percentage that I would love to take or own whatever, even if I do not look at right now the unorganized market, and then look at the organized market and even if it continues growing by a 16% CAGR, it will be more than double itself in the next five years, right. So we're looking at anywhere around INR 7,000 crores to INR 8,000 crores from the organized industry. Even if I look at 5% share from that industry perspective, I think we still talking about INR 350 crores to INR 400 crores if you know, as size from probably one brand.

So I'm not saying that I'm giving this guidance in terms of numbers, but what I'm trying to answer here is that the potential of this particular category of accessories of Travel Gear, of Small Leather Goods in India is huge, humongous. So, I see no rhyme or reason why as Tommy or whether the other brands that why we should not be able to grow at 30% plus CAGR for the next three, four years.

**Raj:** Right. Okay, sir one more question. So, what would your strategy be with the two brands Vertical and Sugarush like how big do you expect these three brands to become in size over the next three to four years sir?

**Abhinav Kumar:** See Sugarush, Vertical, they're our own brands, and so while everyone loves their own baby, but as a businessman, I can't be too emotional to them, right. So we will not spend on trying to build that brand burning crores and crores only in marketing, just to build that brand. That's not the strategy. So, yes, we will continue to innovate in terms of a great product. We will continue to innovate, we will continue to have a good handwriting for the brand. And we will continue to invest into the brands.

Again, not betting a short on it, but a reasonable amount. So that slowly and steadily along with the other brands that we distribute. It will be a little slow process, but it'll be a steady process where we are able to establish these brands in the mind of the consumer. It's very easy to just sign up a celebrity for INR 4 crores and burn another INR 6 crores towards marketing and do a big splash. But probably I don't have that ideology. So, we will continue to invest in the brands to continue to grow. So I'll be happy to see if in the next three to five years that when you start coming from our own brands, I'll be happy with that figure itself.

**Raj:** Okay, got it. Looking at the financials, so in the point of sales growth, there is a sharp drop in the numbers of CFS sales points like from 276 Cr in FY21 to 271 Cr this year. So what would be the reason for that?

**Abhinav Kumar:** Sir, I'll tell you. See CFS for us essentially means company flagship stores. So like, for example, Tommy apparel stores are there. So being the exclusive licensee in any brand that we reveal with, we generally take the exclusivity, right. So even their stores, if they have to sell a belt or a wallet or a bag or a backpack, they have to buy from us, right. So we supply to them as well. So we had the license of AND, Global Desi and House of Anita Dongre and we've let go of that license in this year, right.

So we were also supplying to all the HOAD stores, so they had more than 200 stores, which we were supplying to. So hence that number has been reduced because we stopped supplying to those stores because we've let go of those brands, discontinued the license.

**Raj:** If you could tell us a little bit more about your investment in the wellness venture?

**Abhinav Kumar:** It's still at a very, very nascent stage. But I think more than revenues tomorrow, gross margins in that business are very good. And it's a very new age, a new age treatment, so it's more, rather than calling it a treatment, it's basically a microcurrent patent. And it's a very lifestyle thing. So the women upwards of 30, 35 years of age with a high disposable income, probably a wife of a businessman or investors like you guys, who have to attend to a lot of social parties, a lot of social gatherings, and wants to obviously look good. Everybody wants to look good, right.

So it's a device, which, if you just take one facial from the device, you see a mark difference, a mark change in that before and after. So just been with all these statutory regulations of FDI and all that happening. The operations only have started from December, January. January is when we started the operations, we started the sort of marketing in terms of promoting the website, started participating. In fact, the first event that will be participating would be next month, they'll be the first on ground activity, first on ground event that we'd be participating in.

But it'll be interesting to see, it's a very high margin business, it might take a little time in the beginning, but say in a 3-5 years horizon, I think it'll be very profitable. It should be a very profitable venture.

**Raj:** So in your revenue breakup slide might be, I can see that the government business featuring for the first time, though it's like a small percentage, can you just throw some light on what the government business is exactly?

**Abhinav Kumar:** Yes, in fact, the government business would have been much higher. In fact, I counted in one of the misses for this year. So we wanted to get into the canteen business. And so we already started the Police canteens. So the sales that you start seeing over here is the Central Police Canteen. And we are pending the last leg of approval in the canteen stores department, which is the army, the defense canteens.

So sadly, due to COVID, the PNCs were not happening. The committees was not meeting to review, taking new brands. In fact, I can share the development till day. I don't know because hence you're dealing with a government machinery, you can never be sure. Hence please don't quote me on this. But till now, the overall journey has been good with the defense canteen as well.

In fact, we were pleasantly surprised that we put up some 21 sort of indexes, so they call excuse price points or that they call indexes. So we put up three files, maximum index that you can put up in one file is seven. So we put up three files, 21 indexes, and we were hoping that we will get an approval of 14, 15, because that's generally the success rate.

And our consultant was pleasantly surprised and he said that sir, in my entire tenure, this is the first time that I see that they have not shot down a single index. So all 21 indexes were approved. And in fact, when we had the final call with very senior executives over there, and they were like, why are you launching only luggage? Why not the rest of ranges, I said, sir, we will come with the rest of the ranges as well. We would love to give our products to the defense personnel, because we believe that as a company, we should be doing that.

And so it just that one last bit of process is still pending. It's taking its own sweet time. So once that is true, we'll start seeing a healthy contribution coming from the government business.

**Raj:** Okay, so just to my last question, in your ‘way forward’ slide, you talk about setting up your own luggage manufacturing. So if you could tell us a little bit more about that, and the process to get into the manufacturing into the existing business?

**Abhinav Kumar:** Supply chain has been a constant piece of worry for us, and we have been contemplating though, I wouldn't say that there are any firm plans already, but we have been contemplating that. When we are sitting with the factories, explaining them the entire process, sitting down with them, working with them, to take them through the entire quality control process, the alignments, everything. So we already have sort of the know-how, and of course the background of the group also has gone into manufacturing.

So for us taking that on from what you call, a domain knowledge or a domain experience perspective, we have all that enough. That's not a big challenge. So, but yes, the idea is, should we be putting the money behind setting up a manufacturing unit or should we be putting the money behind increasing our sales reach? So that's the sort of equation that we still need to answer. So it's a thought in process. I wouldn't say that, we neither entered into an agreement with anyone nor it's like we've started scouting for places, or labs or machinery or whatever. But yes, it's a thought in process that I see that a vertical integration is probably a natural outcome.

**Raj:** Right, right. Okay, thank you so much. That's it from my side.

**Abhinav Kumar:** Perfect. Thanks Raj.

**Operator:** Thanks, Raj. Anybody who wishes to ask a question may use the option of raise hand or you may unmute yourself.

**Nilang:** Yes, hi, this is Nilang here. Just I joined a little late on the call, just wanted to understand how much control do we have on our vendors like I believe the entire inventory that we produce today is outsourced from other vendors right. So, what is the process flow like we give them them designs, samples, you get it approved and you procure it from them or you have to buy the material, you choose the material, you procure the material and they are converters. And across how many vendors would we have and what kind of mode are we able to manage since the entire manufacturing is outsourced?

**Abhinav Kumar:** Yes, so we give them the designs, the designs are all, we give them the designs, samples are developed by the factories. We even have our components also or sort of things. So, the logos will come from a particular vendor, the zipper coolers will come from the vendor. We have fabric guys who develop the fabric for us. However, all this setup for us was in China right and even the Indian factories when we started working with Indian factories, they used to source all these products through our factories in China. Now, it is a work in progress where we are identifying Indian component makers, so that we are able to sort of localize it here itself with.

But, yes, a lot of close working with the factories, we have Nalang. So even in China, the factories which have worked with us, they've been working for us the past eight years, 10 years. So very long-term associations, very, very close working relations with them. And be the fabric, be it whether it is leather, whether it is fabric, whether it is any component, every single thing is definitely approved by us. And then an inline inspection happens. And then, of course, a post production Quality Check happens. So that's how the entire structure goes.

**Nilang:** How big is like the contract with Tommy, like, if we were to give it to somebody else, or we have something in place to protect ourselves. And secondly let's say, if I were to start the same business and approach the same vendor and bring in another brand, so how easy is it for somebody to get into a factory or just get the designs through and get another brand to do the same business that you were doing like. So just trying to get around the boat like, how are we managing our boat?

**Abhinav Kumar:** Correct, so a very good question, Nalang. So, if you talk about somebody getting into the same factory and getting those designs, in fact, we see our designs getting copied forget smaller brands, we see big brands also copying our designs, as it is and it's pretty sad. But yes, this is always part and parcel of this game. You can easily copy a designed piece, it's not a copyright, right. You can't have a patent for a design.

So from that perspective, yes, it is easily accessible. But the difference only is that the brand value. So if tomorrow you approach the same factory, and you develop the same style, same design, but the brand name is unknown, you'll still be just to copy and you will not get an entry into be it Shoppers or Lifestyle or Myntra or wherever. So you will not get entry into those sales channels.

So, sales channel is a bigger entry barrier in India than the manufacturing channel. You can approach any manufacturer and ask them to produce 10,000 pieces for you, they will. But you can't enter a Shoppers and ask them to sell 10,000 pieces for you, they will not allow you to enter, right. So that's where the whole differentiation gets created.

Another thing from the factory perspective again, for a new brand to give the kind of quantities and everything which is required, invest into molds. So some bit of entry barrier is also there in terms of manufacturing, which comes from the fact as I explained, which is your mold costs, your MOQs, your production costs, right. So those kinds of barriers are there.

But apart from that, from a contract perspective, all our factories sign an NDA, all our factories sign a manufacturing contract, those factories are socially audited, all those things are there in place. But at the end of the day, contract is just a contract, right. You sign it, it's kept in the locker. It's totally up to that factory, whether the factory values you as a partner or not. I don't know if I have been able to answer your question enough.

**Nilang:** Yes, that should be good. And just another point was around the margin. So where are all the margins in the manufacturing versus the contract manufacturing and versus the distribution like you know, so how much margin is getting captured where like, if you want to tomorrow let's say manufacture, how will your margin profile change versus what will be the capital commitment and ROE expectation like that will require some capital also. The kind of working capital expectations going forward as the business as you mentioned 30%, 35% CAGR is the visibility. How much of the incremental working capital requirements will be there and how will you look to fund it and going forward, what can be the margin visibility like?

**Abhinav Kumar:** So if you talk about manufacturing CapEx from that perspective, you talk about, this is not a, it's not manufacturing petroleum, right? It's manufacturing, it's stitching machines. So it's not a very, very heavy CapEx manufacturing setup. The margins in any manufacturing industry, I think a very basic 10% to 15% kind of a margin, after everything is what a factory means, if you're running the factory well. So a 10%, 12%, 15% kind of contribution towards your purchase is a definite right.

So I would believe that should be the distinguish, which will happen. The upsurge in your bottom line of the goods that you're manufacturing on your own, right, because the factory would be making a 10%, 15% margin on your production. So, that's the thing. Yes, working capital requirements will definitely go up, if you get into manufacturing, because then you have to invest into raw materials and everything.

Now, even today, if you will see most of the factories, they so even if you have a very good relationship, most of the factories today are working on certain advances, because the cycle has changed with GST and all, there's been a shift in the overall buying cycle as well. So getting credit in the market is going down, which is I consider it as a disadvantage, because if you're not getting credit, you will not give too much credit.

So, working capital cycle definitely will increase. And as I said rightly that there are only two ways that we look at funding the working capital cycle, one is majority chunk, so either you take debt or you take equity, right. So for us debt, in terms of debt majority would be non-fund based is what's the strategy. And once we feel the right time, where we are at that influx point where we can put the equity to its perfect use, we will not shy away from raising it.

**Nilang:** So what is the general trade cycle like for you, the credit that you have to give and the credit you get?

**Abhinav Kumar:** So typically, today, what the factories have started working on is that, you work on almost 20%, 25% for the same kind of advance, which you give along with your purchase order, right or you give them on an LC for that much period, but then your LC gets blocked for a longer period because the production cycle itself is about three months. So you give them certain advance and the credit period today is not more than 60 days, 60 days in certain cases banked on an LC, drag it up to 90 days. If it is an import, then obviously 30 days have gone in terms of transit. So even that gets reduced.

And in terms of credit period, most of the customers now have actually come down to two to three months credit period, 60 days to 90 days. There are still a few where so the large format stores, the department stores, where the credit cycle, the outflow is still much higher. We are looking at controlling that as well, we controlled to a large extent, but this year, we expect that we do a little again betterment in that department as well.

**Nilang:** I don't know if this was covered earlier, but what is the sales split like between these large format store B2C and the dealer network? And I believe you sell it through the single store, the Tommy exclusive stores also?

**Abhinav Kumar:** Yes, we run through Tommy exclusive stores as well. And so the large format stores for us is about 16% of our overall business. And in fact this, you could have gone through the presentation, Nalang. We have mentioned the percentage split over there as well.

**Nilang:** All right, that's about it.

**Operator:** We will take the last set of questions from Keval. Keval, you can unmute and ask your questions.

**Keval:** Yes, so just wanted to know if promoter family has this only business or there are any other businesses also which promoter families involved into?

**Abhinav Kumar:** Yes, so as I said it's a manufacturing-based group. We have another company by the name IFF Overseas, which is into manufacturing and into manufacturing of backpacks so. And we manufacture for VIP, Samsonite, Safari, all these brands.

**Keval:** Okay, so is there any plan to integrate both the companies in coming years or some time?

**Abhinav Kumar:** Can't comment right now. But as we said lot of thoughts, a lot of thought processes are on.

**Keval:** Okay, got it. Thanks.

**Operator:** Thanks, Keval. I think that was the last question. Abhinav, we'll end the session here. Any closing comments from your end?

**Abhinav Kumar:** I just want to thank everyone. And we'll just love that, keep asking questions, it makes me think more, makes us better as a team. So thanks attendees for joining and having faith in us.

**Operator:** Thanks, Abhinav. Thanks a lot. And thank you all participants for joining on this call. We now end the call over here. And you may all log off. Thank you so much.

**Abhinav Kumar:** Thank you so much.