VIP Industries (VIPIND)

CMP: ₹ 650 | Target: ₹ 770 (18%) | Target Period: 12 months | **BUY**

July 28, 2022

Disruption free peak season spurs revenue traction

About the stock: VIP Industries is one of Asia's leading seller/manufacturer of various type of luggage's, backpacks, and handbags. VIP has range of leading brands, positioned across entire price range, catering to value (Aristocrat) mid (VIP, Skybags) and premium (Carlton, Caprese) price points

- Market leader in the organised luggage space (oligopoly market)
- VIP has, over the years, maintained balance sheet prudence with stringent working capital policy, virtually debt free status and healthy RoCE: 30%+.

Q1FY23 Results: In the first non-disruptive holiday season (the most critical quarter), revenue recovery rate for VIP surpassed pre-covid levels in Q1FY23 (105% of pre-covid levels).

- On a favourable base, revenue grew by 186% YoY to ₹ 590.6 crore. Volumes were higher ~8% over pre-covid levels.
- Owing to sharp increase in RM prices (24% YoY), gross margins declined 330 bps QoQ (flattish YoY) to 49.9%. Positive impact of increased proportion in own manufacturing didn't reflect in GM's.
- EBITDA margins for the quarter stood at 17.4% (up 1100 bps YoY, Q1FY20: 22.2%). EBITDA was also impacted by exchange rate fluctuations (~200 bps).

What should investors do? VIP's share price has grown by ~3.7x over the past five years (from ~₹ 175 in July 2017 to ~₹ 650 levels in July 2022). Luggage being a proxy play to the travel & tourism industry was among the worst impacted sectors owing to pandemic in FY21/22. With demand greenshoots visible, we expect VIP Industries to be a key beneficiary of increased movement of leisure and business tourist both domestically and internationally.

- We maintain **BUY** recommendation on the stock

Target Price and Valuation: We value VIP at ₹ 770 i.e. 48x FY24E EPS

Key triggers for future price performance:

- Strong manufacturing capabilities in Bangladesh (for soft luggage) and India gives VIP an edge over its peers who depend mainly on imports
- Given company's healthy balance sheet (net debt free), we expect VIP will be able to effectively manage through the challenging environment.
- We expect company to reach pre-covid levels by FY23E and model in revenue CAGR of 30% in FY22-24E (on a favourable base). Stabilising RM prices and increased proportion of in-house manufacturing both from India and Bangladesh to translate into better margins going forward.

Alternate Stock Idea: Apart from VIP in our retail coverage, we also like Trent

- Inherent strength of brands (Westside, Zudio, Zara) and proven business model position Trent as a key beneficiary of economy unlock theme
- BUY with a target price of ₹ 1470/share

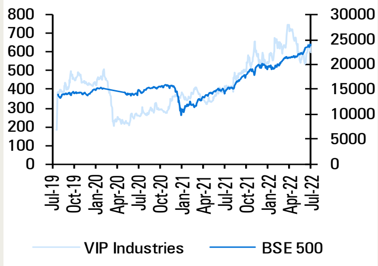
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	9,184.5
Total Debt (FY22) (₹ crore)	122.7
Cash (FY22) (₹ crore)	20.7
EV (₹ crore)	9,286.5
52 Week H / L	774 /335
Equity Capital (₹ crore)	28.3
Face Value (₹)	2.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	53.5	50.3	50.3	50.4	50.8
FII	3.0	4.4	5.8	8.6	8.8
DII	20.5	23.2	23.6	21.4	20.8
Others	23.1	22.2	20.3	19.6	19.6

Price Chart



Key risks

- **Key Risk:**(i) inability to pass on higher RM costs (ii) Lower discretionary spend can subdue sales

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Net Sales	1,784.7	1,718.3	618.6	1,289.5	0.2%	1,880.5	2,205.0	30.8%
EBITDA	224.7	291.3	-65.3	144.4	1.8%	313.7	400.9	66.6%
Net Profit	145.3	111.7	-97.5	66.9		179.4	227.7	
P/E (x)	63.2	82.2	-94.2	137.2		51.2	40.3	
EV/Sales (x)	5.2	5.3	14.7	7.2		4.9	4.2	
EV/EBITDA (x)	41.2	31.5	-139.5	64.0		29.5	22.9	
RoCE (%)	32.4	34.2	-14.1	16.2		31.2	35.8	
RoE (%)	25.0	18.3	-18.9	11.9		25.5	26.4	

Source: Company, ICICI Direct Research

Key quarterly takeaways and conference call highlights

- In the first non-disruptive holiday season (the most critical quarter), revenue recovery rate for VIP surpassed pre-covid levels in Q1FY23 (105% of pre-covid levels). On a favourable base, revenue grew by 186% YoY to ₹ 590.6 crore (I-direct estimate: ₹ 600 crore). Volumes were higher by ~8% over pre-covid levels, whereas average realisations were lower owing to shift in product mix towards value segment (35% currently vs. 25% in Q1FY20). Higher push towards domestic and international travel and recovery in airline traffic (~93% of pre-covid levels) has perked up demand for luggage during Q1FY23 which historically has been the strongest quarter for VIP Industries.
- Higher RM inflation (~24% YoY) restricted gross margins to 50% vs. steady state margin of ~55% despite increase in overall proportion of own manufacturing (64% currently vs. 35% in Q1FY20). Other expenses grew sharply by 30% YoY to ₹ 132 crore on account of increase in ad spends, freight cost and exchange rate fluctuations. Absolute EBITDA came in at ₹ 102.6 crore (Q1FY22: ₹ 12.9 crore, Q1FY20: ₹ 125 crore). Company reported exceptional income worth ₹ 15 crore pertaining to partial receipt of insurance claim. Subsequently, PAT for the quarter stood at ₹ 69.1 crore (adjusted PAT at a 15 quarter high).
- Demand recovery was more profound towards mass category than the premium category. The company rejigged its product portfolio towards mass segment and launched several new products at lower price points in the category to capture the demand. Share of Aristocrat brand (value brand) stood at 35% vs. 25% pre-covid levels, while share of VIP brand declined to 23% vs 26%. Revenue contribution from bag packs improved 300 bps QoQ to 12%, however still remains below pre-covid levels (19%)
- Demand for hard luggage continues to pick up pace in line with the global trends (revenue contribution: 64% in Q1FY23 vs. 42% in Q1FY20). Company's strategy towards producing more of Polypropylene (vs. Polycarbonate) is bearing fruits. After many years the company in FY22 has invested ~ ₹ 36 crore in expanding capacity for hard luggage in India and Bangladesh. Planning to launch new product lines in hard luggage.
- Rising inflation on input cost and abnormal high levels of ocean freight continues to remain the major hindrance for the company going ahead. While crude based RM have witnessed softness in recent times, the situation continues to be volatile. Around 65% of the company's raw materials are linked to crude. The management had undertaken ~15% price hike in FY22 and has taken a further price hike of 2% in Q1FY23. The company has been focusing on cost saving and now has a leaner operating cost structure, which would enable it to improve its margins. Post stabilisation of commodity inflation, demand environment, VIP has an aspiration to touch EBITDA margins of 20%.
- Own manufacturing contribution (Bangladesh & India) has increased significantly over last two years and it is currently contributing ~64% of revenue in Q1FY23 (vs. 35% in Q1FY20). The Company is aspiring to achieve 75-80% of revenue from its India and Bangladesh plants in FY23. The management highlighted that the company had significantly curtailed its dependence of finished goods from China to ~11% vs. 40% in FY20.

Q1FY23 conference call highlights:

- On the channel front all distribution channels performed well. The company expanded its presence in the general trade with store opening in 68 new towns. The company opened 21 EBOS in Q1FY23 and further shortlisted 23 stores in Q2FY23. For FY23 VIP plans to add 120 to 150 EBOS to capture the demand for its products.
- The management highlighted that it will continue to aggressively expand its footprint in the large format stores as it helps in driving premiumisation agenda for Skybags and Caprese brands.
- The advertisement and publicity spend for Q1FY23 was 5.5%. For FY23, the company expects to maintain the advertisement expenditure of around 5%.
- The management indicated that the salience of its value segment brand Aristocrat has increased post covid compared to pre covid. The company had not focused much on the Aristocrat brand in pre pandemic period, however it has increased the focus on the brand during the pandemic to benefit from the enhanced demand due to stress faced by unorganised players during the pandemic which has led to increased market share for the company in the value segment.
- On recovery in the backpacks segment, the management highlighted that the segment did not perform upto expectations in Q1FY23 as there was delay in launching the new collection. The company expects the backpacks segment revenues to pick up from Q2FY23.
- For certain high fashion products, the company faced supply chain issues due to disruption in China particularly for ladies' bag segment under the brand Caprese
- The management highlighted that its business is not capex heavy with payback of 18 months. For FY23, the company is planning a capex of ₹ 50 crore which is expected to be spent on capacity enhancement at Nashik, Sinnar and Bangladesh manufacturing units.
- The revenue share of exports in Q1FY23 stood at 5%. Though the company had not been aggressive in the export business earlier it is now planning to increase the global presence. The company plans to expand its presence in Middle East & GCC region and has also recently entered in Saudi Arabia. The company has also resumed exports to South East Asian & European countries.
- Tax rate for FY23 is expected to be around 22-23%

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	590.6	206.2	186.4	355.9	65.9	Revenue recovery rate stood at 105% of pre-covid levels. Volume grew ~8%
Raw Material Expense	295.7	101.2	192.3	166.3	77.8	
Gross Profit	294.9	105.0	180.8	189.6	55.5	
Gross Profit Margin	49.9	50.9	-101 bps	53.3	-334 bps	Significantly higher RM prices (crude based) resulted in GM contraction
Employee exp	60.2	38.9	54.7	55.6	8.1	
Other Exp	132.1	53.3	148.0	101.4	30.3	Other expenses higher owing to higher freight cost, exchange rate fluctuation and ad spends
EBITDA	102.6	12.9	696.0	32.6	214.9	
EBITDA Margin (%)	17.4	6.3	1112 bps	9.2	822 bps	
Depreciation	18.0	18.1	-0.3	17.0	5.9	
Other Income	7.1	14.4	-50.9	5.8	20.9	
Interest	6.5	7.4	-11.0	5.4	21.8	
Exceptional Income	15.0	-		-		Exceptional income pertains to partial receipt of insurance claim.
PBT	100.1	1.8	5,311.9	16.0	524.2	
Tax Outgo	31.0	-0.7	-4,658.8	3.7	749.3	
PAT	69.1	2.5	2,632.0	12.4	457.9	

Source: Company, ICICI Direct Research

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	618.6	1,289.5	1,880.5	2,205.0
Growth (%)	(64.0)	108.5	45.8	17.3
Total Raw Material Cost	366.2	645.0	912.0	1,036.3
Gross Margins (%)	40.8	50.0	51.5	53.0
Employee Expenses	137.6	188.7	231.3	266.8
Other Expenses	180.1	311.4	423.5	500.9
Total Operating Expenditure	683.8	1,145.1	1,566.8	1,804.0
EBITDA	(65.3)	144.4	313.7	400.9
EBITDA Margin	(10.6)	11.2	16.7	18.2
Interest	29.8	24.6	25.8	22.6
Depreciation	77.9	70.0	83.0	95.8
Other Income	48.4	36.4	20.0	22.0
Exceptional Income	-	-	15.0	-
PBT	(124.6)	86.2	239.8	304.5
Total Tax	(27.1)	19.2	60.4	76.7
Profit After Tax	(97.5)	66.9	179.4	227.7

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	-97.5	66.9	179.4	227.7
Add: Depreciation	77.9	70.0	83.0	95.8
Net Increase in Current Assets	277.8	-332.8	-191.5	-136.9
Net Increase in Current Liabilities	-140.2	149.5	21.2	53.8
Others	-70.0	0.0	0.0	0.0
CF from operating activities	**48.0**	**-46.4**	**92.1**	**240.6**
(Inc)/dec in Investments	-100.1	99.4	34.3	5.0
(Inc)/dec in Fixed Assets	19.6	-31.7	-49.8	-40.0
Others	12.8	34.3	25.7	0.0
CF from investing activities	**-67.7**	**101.9**	**10.2**	**-35.0**
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	121.5	-31.0	-22.7	-50.0
Dividend Paid	0.0	-24.0	-35.9	-68.3
Others	-22.1	-70.2	-55.8	-61.0
CF from financing activities	**99.4**	**-125.3**	**-114.4**	**-179.3**
Net Cash flow	79.8	-69.8	-12.1	26.2
Opening Cash	10.8	90.5	20.7	8.6
Closing Cash	**90.5**	**20.7**	**8.6**	**34.9**

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	28.3	28.3	28.3	28.3
Reserve and Surplus	488.9	531.8	675.3	834.7
Total Shareholders funds	517.2	560.1	703.6	863.0
Total Debt	153.7	122.7	100.0	50.0
Non Current Liabilities	200.8	176.5	176.2	176.2
Source of Funds	**871.7**	**859.3**	**979.8**	**1,089.2**
Gross block	173.3	200.4	250.4	290.4
Less: Accum depreciation	78.4	102.4	129.9	164.8
Net Fixed Assets	94.9	98.0	120.5	125.6
Capital WIP	2.0	7.1	7.1	7.1
Intangible assets	2.5	1.9	1.8	1.8
Investments	143.2	43.8	9.5	4.5
Inventory	301.7	518.4	628.5	724.9
Cash	90.5	20.7	8.6	34.9
Debtors	148.5	218.5	298.8	338.3
Loans & Advances & Other C/	73.6	119.7	120.7	121.7
Total Current Assets	614.2	877.3	1,056.7	1,219.8
Creditors	154.0	282.4	309.1	362.5
Provisions & Other CL	67.3	88.5	82.9	83.4
Total Current Liabilities	221.3	370.8	392.0	445.9
Net Current Assets	392.9	506.5	664.7	773.9
LT L& A, Other Assets	236.2	202.0	176.3	176.3
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**871.7**	**859.3**	**979.8**	**1,089.2**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	-6.9	4.7	12.7	16.1
Cash EPS	-1.4	9.7	18.6	22.9
BV	36.6	39.6	49.8	61.1
DPS	0.0	2.5	2.5	4.8
Cash Per Share	6.4	1.5	0.6	2.5
Operating Ratios (%)				
EBITDA margins	-10.6	11.2	16.7	18.2
PBT margins	-20.1	6.7	12.8	13.8
Net Profit margins	-15.8	5.2	9.5	10.3
Inventory days	178.0	146.7	122.0	120.0
Debtor days	87.6	61.8	58.0	56.0
Creditor days	90.9	79.9	60.0	60.0
Return Ratios (%)				
RoE	-18.9	11.9	25.5	26.4
RoCE	-14.1	16.2	31.2	35.8
Valuation Ratios (x)				
P/E	-94.2	137.2	51.2	40.3
EV / EBITDA	-139.5	64.0	29.5	22.9
EV / Sales	14.7	7.2	4.9	4.2
Market Cap / Revenues	14.8	7.1	4.9	4.2
Price to Book Value	17.8	16.4	13.1	10.6
Solvency Ratios				
Debt / Equity	0.3	0.2	0.1	0.1
Debt/EBITDA	-2.4	0.8	0.3	0.1
Current Ratio	2.4	2.3	2.7	2.7
Quick Ratio	1.0	0.9	1.1	1.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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