

Impressive sales growth! Margins to improve in H2...

About the stock: VIP Industries is one of Asia's leading seller/manufacturer of various type of luggage, backpacks and handbags. VIP has a range of leading brands, positioned across the 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: 44% share)
- VIP has, over the years, maintained balance sheet prudence with stringent working capital policy, virtually debt free status and healthy RoCE: 30% +

Q2FY23 Results: VIP's revenue performance exceeded expectations in Q2FY23 with highest ever sales in Q2. On a pre-Covid base, revenue recovery rate was at 125% in Q2FY23 vs. 105% in Q1FY23.

- On a favourable base, sales grew 56% YoY to ₹ 514.7 crore. Volumes were higher ~14% over pre-Covid levels
- On the profitability front, gross margins improved 100 bps YoY to 48.1%, but continued to remain below pre-Covid levels on account of significantly higher RM & freight expenses and a change in product mix
- Subsequently, EBITDA margins were at 13.9% (up 120 bps YoY, Q2FY20: 16%). Absolute EBITDA came in at ₹ 71.6 crore (Q2FY22: ₹ 41.8 crore, Q2FY20: ₹ 66.2 crore)

What should investors do? VIP's share price has grown by ~2.5x in the past five years (from ~₹ 278 in October 2017 to ~₹ 700 levels in October 2022). Luggage being a proxy play to the travel & tourism industry was among the worst impacted sectors owing to pandemic in FY21, FY22. 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 ₹ 850 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 the company's healthy balance sheet, we expect VIP to be able to effectively manage in the challenging environment
- We expect the company to surpass ₹ 2000 crore revenue in FY23 and model revenue CAGR of 37% 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 ₹ 1665/share



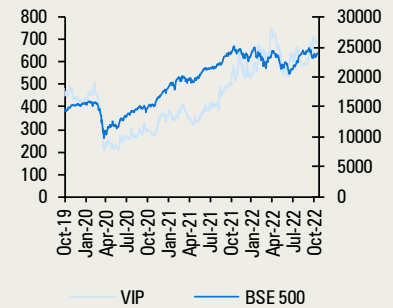
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	10,004.0
Total Debt (FY22) (₹ crore)	122.7
Cash (FY22) (₹ crore)	20.7
EV (₹ crore)	10,106.0
52 Week H / L	774 / 495
Equity Capital (₹ crore)	28.3
Face Value (₹)	2.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	50.3	50.3	50.4	50.8	51.3
FI	4.4	5.8	8.6	8.8	9.0
DII	23.2	23.6	21.4	20.8	19.1
Others	22.2	20.3	19.6	19.6	20.6

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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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%	2,113.9	2,447.3	37.8%
EBITDA	224.7	291.3	-65.3	144.4	1.8%	332.2	428.6	72.3%
Net Profit	145.3	111.7	-97.5	66.9		194.1	249.8	
P/E (x)	68.9	89.5	-102.6	149.5		51.5	40.0	
EV/Sales (x)	5.6	5.8	16.0	7.8		4.8	4.1	
EV/EBITDA (x)	44.8	34.3	-152.1	69.7		30.3	23.3	
RoCE (%)	32.4	34.2	-14.1	16.2		33.2	37.9	
RoE (%)	25.0	18.3	-18.9	11.9		27.1	28.1	

Key quarterly takeaways and conference call highlights

- On an average, Q2 revenues are ~75% of Q1 sales but Q2FY23 sales were at 87% of Q1FY23 revenues, which is the highest ever compared to any pre-Covid year. On a pre-Covid base, revenue recovery was at 125% in Q2FY23 vs. 105% in Q1FY23. Growth was driven by a mix of volume (14% over pre-Covid levels) and realisation growth
- Demand recovery was more profound towards the mass category than the premium category, which is also fuelled by market share gains from unorganised players. The company rejigged its product portfolio towards the mass segment and launched several new products at lower price points in the category to capture the demand. Share of Aristocrat brand (value brand) was at 37% vs. 22% pre-Covid while share of VIP brand declined to 21% vs. 27%
- On the category front, luggage segment (75% of sales) continues to be the outperformer with growth of 46% over pre-Covid levels. Backpacks, as a segment, have witnessed QoQ improvement but revenues continue to be below pre-Covid levels (88% of pre-Covid levels)
- High inflation on input cost and abnormal high levels of ocean freight continue to remain a major hindrance for the company. While crude based RM 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 expects a gradual improvement in gross margins in the ensuing quarter (gross margin range: 50-52%). The company does not intend to hike prices in the coming quarters (had undertaken ~15% price hike in FY22). It 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 the last two years and it is currently contributing ~65% of revenue in Q2FY23 (vs. 35% in Q2FY20). The company is aspiring to achieve 70-75% 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 <10% vs. 40% in FY20
- To further strengthen its manufacturing capacity, the company has embarked on a ₹ 100 crore capex plan to enhance its capacity by ~25% by FY24E. As on FY22, the company had annual capacity of 5.1 million of hard luggage and 7.2 million of soft luggage
- The company is gradually enhancing its distribution channel with touchpoints for general trade and modern trade channels tracking closely to pre-Covid levels. As on date, the company had 413 stores with 45 under fit outs. VIP is mulling exiting FY23E with 500 exclusive VIP outlets (it had shut 150 lossmaking stores out of its 500 outlets in FY21). Majority of the store additions would be through the franchise route. Revenue from modern trade channel, which was under pressure owing to closure of Future group stores (~15% of revenues) has now gradually picked up pace with restocking in other national chain stores
- On the outlook for the luggage industry, the management expects the organised luggage industry to grow at a CAGR of 15% over the next five years and the same growth to be replicated at the company level as well. VIP currently has ~44% market share in the organised luggage segment
- The revenue share of exports in Q2FY23 was at 5% (vs. 2.5% in pre-Covid levels). 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 the Middle East & GCC region and has also recently entered Saudi Arabia. The company has also resumed exports to South East Asian and European countries

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	514.7	330.1	56.0	590.6	-12.8	Revenue recovery rate stood at 125% of pre-covid levels. Volume grew ~14% over pre-covid levels
Raw Material Expense	267.1	174.5	53.0	295.7	-9.7	
Gross Profit	247.7	155.5	59.2	294.9	-16.0	
Gross Profit Margin	48.1	47.1	99 bps	49.9	-182 bps	Significantly higher RM prices (crude based) and freight expenses constrains GM's at 48% (Q2FY20: 53%)
Employee exp	57.8	44.3	30.5	60.2	-3.9	
Other Exp	118.3	69.4	70.4	132.1	-10.5	Other expenses higher owing to higher freight cost, exchange rate fluctuation and ad spends
EBITDA	71.6	41.8	71.2	102.6	-30.2	
EBITDA Margin (%)	13.9	12.7	124 bps	17.4	-347 bps	
Depreciation	18.0	17.5	2.8	18.0	-0.2	
Other Income	5.3	6.7	-21.5	7.1	-25.1	
Interest	6.9	6.5	6.5	6.5	5.8	
Exceptional Income	0.0	-		15.0		Exceptional income pertains to partial receipt of insurance claim in Q1FY23
PBT	52.0	24.6	111.6	100.1	-48.1	
Tax Outgo	8.6	6.0	42.4	31.0	-72.4	
PAT	43.4	18.5	134.1	69.1	-37.2	

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	2,113.9	2,447.3
Growth (%)	(64.0)	108.5	63.9	15.8
Total Raw Material Cost	366.2	645.0	1,046.4	1,174.7
Gross Margins (%)	40.8	50.0	50.5	52.0
Employee Expenses	137.6	188.7	260.0	293.7
Other Expenses	180.1	311.4	475.3	550.3
Total Operating Expenditure	683.8	1,145.1	1,781.7	2,018.7
EBITDA	(65.3)	144.4	332.2	428.6
EBITDA Margin	(10.6)	11.2	15.7	17.5
Interest	29.8	24.6	25.8	22.6
Depreciation	77.9	70.0	81.9	94.0
Other Income	48.4	36.4	20.0	22.0
Exceptional Income	-	-	15.0	-
PBT	(124.6)	86.2	259.5	334.0
Total Tax	(27.1)	19.2	65.4	84.2
Profit After Tax	(97.5)	66.9	194.1	249.8

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	194.1	249.8
Add: Depreciation	77.9	70.0	81.9	94.0
Net Increase in Current Assets	277.8	-332.8	-208.1	-103.0
Net Increase in Current Liabilities	-140.2	149.5	59.5	55.3
Others	-70.0	0.0	0.0	0.0
CF from operating activities	48.0	-46.4	127.4	296.2
(Inc)/dec in Investments	-100.1	99.4	34.3	5.0
(Inc)/dec in Fixed Assets	19.6	-31.7	-74.8	-55.0
Others	12.8	34.3	25.7	0.0
CF from investing activities	-67.7	101.9	-14.8	-50.0
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	-38.8	-74.9
Others	-22.1	-70.2	-55.8	-61.0
CF from financing activities	99.4	-125.3	-117.3	-185.9
Net Cash flow	79.8	-69.8	-4.7	60.2
Opening Cash	10.8	90.5	20.7	16.0
Closing Cash	90.5	20.7	16.0	76.2

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	687.1	862.0
Total Shareholders funds	517.2	560.1	715.3	890.2
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	991.5	1,116.4
Gross block	173.3	200.4	275.4	330.4
Less: Accum depreciation	78.4	102.4	128.8	161.9
Net Fixed Assets	94.9	98.0	146.6	168.5
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	608.1	670.5
Cash	90.5	20.7	16.0	76.2
Debtors	148.5	218.5	335.9	375.5
Loans & Advances & Other C/	73.6	119.7	120.7	121.7
Total Current Assets	614.2	877.3	1,080.7	1,243.9
Creditors	154.0	282.4	347.5	402.3
Provisions & Other CL	67.3	88.5	82.9	83.4
Total Current Liabilities	221.3	370.8	430.4	485.7
Net Current Assets	392.9	506.5	650.3	758.2
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	991.6	1,116.4

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	-6.9	4.7	13.7	17.7
Cash EPS	-1.4	9.7	19.5	24.3
BV	36.6	39.6	50.6	63.0
DPS	0.0	2.5	2.7	5.3
Cash Per Share	6.4	1.5	1.1	5.4
Operating Ratios (%)				
EBITDA margins	-10.6	11.2	15.7	17.5
PBT margins	-20.1	6.7	12.3	13.6
Net Profit margins	-15.8	5.2	9.2	10.2
Inventory days	178.0	146.7	105.0	100.0
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	27.1	28.1
RoCE	-14.1	16.2	33.2	37.9
Valuation Ratios (x)				
P/E	-102.6	149.5	51.5	40.0
EV / EBITDA	-152.1	69.7	30.3	23.3
EV / Sales	16.0	7.8	4.8	4.1
Market Cap / Revenues	16.2	7.8	4.7	4.1
Price to Book Value	19.3	17.9	14.0	11.2
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	2.5	2.4
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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