

Higher gross margins surprise positively...

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 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%+

Q4FY23 Results: VIP Industries reported a moderate operational performance as the company faced challenges pertaining to a major fire at its Bangladesh subsidiary (contributes ~10% of consolidated revenues).

- On a favourable base, revenue grew 27% YoY to ₹ 450.7 crore but down 14% QoQ (revenue run rate was ₹ 500+ crore in FY23)
- On the positive side, the company recorded one of its highest ever gross margins of 57.9% (last six quarter's average: ~50%) mainly owing to softness in crude prices and constant efforts in enhancing share of in-house manufacturing (~70% currently)
- Hence, despite negative operating leverage, higher gross margins resulted in EBITDA margins improving 40 bps QoQ to 14.3%

What should investors do? VIP's share price has grown by ~70% over the past five years (from ~₹ 400 in May 2018 to ~₹ 630 levels in May 2023). Luggage being a proxy play to the travel & tourism industry was among the worst impacted sectors owing to pandemic in FY21, FY22. VIP recorded a healthy recovery in FY23 with revenues crossing the ₹ 2000 crore mark for the first time. 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 ₹ 750 i.e. 40x FY25E 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
- Enhanced focus on ladies' hand bag (Caprese brand, 5% of sales) and increase in market share in e-commerce channels are key focus areas
- Stabilising RM prices (crude derivative) 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 the economy unlock theme
- BUY with a target price of ₹ 1730/share



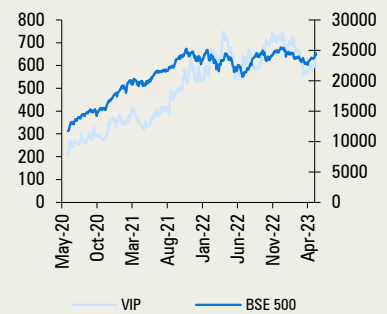
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	9,014.9
Total Debt (FY23) (₹ crore)	181.0
Cash (FY23) (₹ crore)	36.5
EV (₹ crore)	9,159.4
52 Week H / L	765 / 505
Equity Capital (₹ crore)	28.3
Face Value (₹)	2.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	50.4	50.8	51.3	51.3	51.3
FII	8.6	8.8	9.0	9.3	9.0
DII	21.4	20.8	19.1	19.9	20.9
Others	19.6	19.6	20.6	19.5	18.8

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	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	2 Year CAGR (FY23-FY25E)
Net Sales	1,784.7	1,718.3	618.6	1,289.5	2,082.3	6.6%	2,349.7	2,671.6	13.3%
EBITDA	224.7	291.3	-65.3	144.4	313.8	2.5%	406.5	479.2	23.6%
Net Profit	145.3	111.7	-97.5	66.9	152.4	10.9%	221.8	264.6	
P/E (x)	62.1	80.7	-92.5	134.7	59.1		40.6	34.1	
EV/Sales (x)	5.1	5.2	14.4	7.0	4.4		3.9	3.4	
EV/EBITDA (x)	40.4	30.9	-136.9	62.9	29.1		22.6	19.1	
RoCE (%)	32.4	34.2	-14.1	16.2	31.3		33.3	33.1	
RoE (%)	25.0	18.3	-18.9	11.9	23.8		27.5	26.6	

Key quarterly takeaways and conference call highlights

- Demand recovery was more pronounced 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 35% vs. 27% pre-Covid levels while share of VIP brand declined to 23% vs. 27%. The management is expecting share of mid-premium segment (VIP & Skybags) to increase, going forward, on the back of a healthy product pipeline
- On the category front, luggage segment (74% of sales) continues to dominate the product mix. However, the company witnessed a healthy recovery in the backpack segment (15% of sales) during the quarter. Backpacks registered 2x YoY revenue growth in Q4FY23 with revenue recovery rate reaching 109% of pre-Covid levels
- Benefits of declining RM prices and ocean freight coupled with increased in-house manufacturing resulted in VIP delivering 12-quarter high gross margins of 57.9%. The management expects gross margins to stabilise at 53-55% as higher competitive environment may restrict GM expansion. The company in FY23 had provided for doubtful debts worth ₹ 23 crore (pertaining to Future group receivables). The company has fully provided for the same and no further provisions would be required henceforth. We expect EBITDA margins to expand by 223 bps YoY to 17.3% in FY24E
- The company is gradually enhancing its distribution channel with touchpoints for general trade and modern trade channels tracking closely to pre-Covid levels. The company crossed 500+ exclusive stores in FY23 (it had shut 150 lossmaking stores out of its 500 outlets in FY21) and expects to exit FY24 with 800+ stores (75% through franchise route). Revenue from modern trade channel, which was under pressure owing to closure of Future group stores (~29% of revenues) has now gradually picked up pace with restocking in other national chain stores
- Own manufacturing contribution (Bangladesh & India) has increased significantly over the last two years. It is currently contributing ~70% of revenue in YTD FY23 (vs. 42% in FY20). To further strengthen its manufacturing capacity, the company has embarked on a ₹ 200 crore capex plan to enhance its capacity by 1.5x to 25 Mn+ pieces over the next two years. Besides Maharashtra, the company will be scouting for land in the northern part of the region to cater to the north market. More than 70% of the capacity would be towards soft luggage (including backpack & duffel) and rest towards hard luggage. The capacity will come on stream by FY25-26E with potential peak revenue of ₹ 3200-3400 crore. The company continues to have a healthy balance sheet (D/E: 0.3x). We expect the near-term capex to be funded through internal accruals as we build in cumulative OCF generation of ₹ 545 crore in FY24-25E
- On the outlook for the luggage industry, the management expects the organised luggage industry to grow at 15% CAGR over the next five years. The same growth is expected to be replicated at the company level as well. The company has underperformed in the online distribution space and lost market share to peers. To strengthen its e-commerce presence, VIP recently appointed Boston Consultancy Group (BCG) to accelerate market share gains. It has also set out ambitious plans to scale up its Caprese brand through accelerating touch points (also through its own website) and categorising the brand in mid-premium to premium segment (₹ 2000-2400)
- The company reported exceptional expense worth ₹ 47 crore pertaining to inventory loss owing to fire in one of the eight factories present in Bangladesh in January 2023. The management indicated that the loss is fully insured and expects to receive the amount in the next nine to 12 months

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	450.6	355.9	26.6	526.4	-14.4	Growth mainly driven by volume growth of 27% YoY
Raw Material Expense	189.9	166.3	14.2	266.2	-28.7	
Gross Profit	260.7	189.6	37.5	260.2	0.2	
Gross Profit Margin	57.9	53.3	459 bps	49.4	843 bps	Higher than anticipated GM expansion owing to operational efficiencies combined with favourable raw material prices & ocean freight
Employee exp	58.1	55.6	4.5	59.5	-2.3	
Other Exp	138.3	101.4	36.4	127.8	8.2	Other expenses include provision for doubtful debt of ₹ 12 crore
EBITDA	64.3	32.6	97.3	73.0	-11.9	
EBITDA Margin (%)	14.3	9.2	511 bps	13.9	41 bps	EBITDA without impact of provision for doubtful debt would be 17.8%
Depreciation	19.6	17.0	15.4	18.1	8.7	
Other Income	4.5	5.8	-22.1	2.6	76.0	
Interest	8.4	5.4	56.6	6.6	27.2	
Exceptional Expense	-47.2	-				Exceptional expense worth ₹ 47 crore pertaining to inventory loss owing to fire in subsidiary.
PBT	-6.4	16.0	PL	50.9	PL	
Tax Outgo	-2.2	3.7	-159.2	6.7	-132.2	
PAT	-4.3	12.4	PL	44.2	PL	

Source: Company, ICICI Direct Research

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Net Sales	1,289.5	2,082.3	2,349.7	2,671.6
Growth (%)	108.5	61.5	12.8	13.7
Total Raw Material Cost	645.0	1,018.8	1,104.4	1,255.6
Gross Margins (%)	50.0	51.1	53.0	53.0
Employee Expenses	188.7	235.6	270.2	301.9
Other Expenses	311.4	514.1	568.6	634.8
Total Operating Expenditure	1,145.1	1,768.5	1,943.1	2,192.3
EBITDA	144.4	313.8	406.5	479.2
EBITDA Margin	11.2	15.1	17.3	17.9
Interest	24.6	28.4	32.6	34.5
Depreciation	70.0	73.7	95.4	109.0
Other Income	36.4	17.1	18.0	18.0
Exceptional Income	-	(32.2)	-	-
PBT	86.2	196.6	296.5	353.7
Total Tax	19.2	44.2	74.7	89.1
Profit After Tax	66.9	152.4	221.8	264.6

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit/(Loss) after taxation	66.9	152.4	221.8	264.6
Add: Depreciation	70.0	73.7	95.4	109.0
Net Increase in Current Assets	-332.8	-112.3	-124.2	-133.4
Net Increase in Current Liabilities	149.5	43.2	57.1	53.5
Others	0.0	0.0	0.0	0.0
CF from operating activities	-46.4	157.0	250.1	293.7
(Inc)/dec in Investments	99.4	18.0	21.3	0.0
(Inc)/dec in Fixed Assets	-31.7	-80.0	-179.6	-100.0
Others	34.3	-11.8	0.0	0.0
CF from investing activities	101.9	-73.8	-158.3	-100.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-31.0	58.3	0.0	0.0
Dividend Paid	-24.0	-70.9	-55.4	-79.4
Others	-70.2	-54.9	-62.3	-67.0
CF from financing activities	-125.3	-67.5	-117.8	-146.4
Net Cash flow	-69.8	15.8	-26.0	47.3
Opening Cash	90.5	20.7	36.5	10.5
Closing Cash	20.7	36.5	10.5	57.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	28.3	28.3	28.3	28.3
Reserve and Surplus	531.8	613.4	779.7	964.9
Total Shareholders funds	560.1	641.6	808.0	993.2
Total Debt	122.7	181.0	181.0	181.0
Non Current Liabilities	176.5	173.3	172.0	172.0
Source of Funds	859.3	995.9	1,160.9	1,346.1
Gross block	200.4	272.7	452.7	552.7
Less: Accum depreciation	102.4	124.4	158.8	200.8
Net Fixed Assets	98.0	148.3	293.9	351.9
Capital WIP	7.1	14.7	14.7	14.7
Intangible assets	1.9	2.1	1.7	1.7
Investments	43.8	25.8	4.5	4.5
Inventory	518.4	587.1	630.9	717.3
Cash	20.7	36.5	10.5	57.8
Debtors	218.5	255.4	334.8	380.6
Loans & Advances & Other C/	119.7	126.4	127.4	128.5
Total Current Assets	877.3	1,005.4	1,103.6	1,284.2
Creditors	282.4	308.7	386.3	439.2
Provisions & Other CL	88.5	105.4	84.9	85.4
Total Current Liabilities	370.8	414.1	471.1	524.6
Net Current Assets	506.5	591.3	632.4	759.6
LT L& A, Other Assets	202.0	213.8	213.8	213.8
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	859.3	995.9	1,160.9	1,346.2

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	4.7	10.8	15.7	18.7
Cash EPS	9.7	16.0	22.4	26.4
BV	39.6	45.4	57.2	70.3
DPS	2.5	4.5	3.9	5.6
Cash Per Share	1.5	2.6	0.7	4.1
Operating Ratios (%)				
EBITDA margins	11.2	15.1	17.3	17.9
PBT margins	6.7	9.4	12.6	13.2
Net Profit margins	5.2	7.3	9.4	9.9
Inventory days	146.7	102.9	98.0	98.0
Debtor days	61.8	44.8	52.0	52.0
Creditor days	79.9	54.1	60.0	60.0
Return Ratios (%)				
RoE	11.9	23.8	27.5	26.6
RoCE	16.2	31.3	33.3	33.1
Valuation Ratios (x)				
P/E	134.7	59.1	40.6	34.1
EV / EBITDA	62.9	29.1	22.6	19.1
EV / Sales	7.0	4.4	3.9	3.4
Market Cap / Revenues	7.0	4.3	3.8	3.4
Price to Book Value	16.1	14.1	11.2	9.1
Solvency Ratios				
Debt / Equity	0.2	0.3	0.2	0.2
Debt/EBITDA	0.8	0.6	0.4	0.4
Current Ratio	2.3	2.3	2.3	2.3
Quick Ratio	0.9	0.9	1.0	1.0

Source: Company, ICICI Direct Research

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Sell: <-15%



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