

VIP INDUSTRIES

Robust quarter, despite GST dampener

India Equity Research | Miscellaneous

VIP Industries' (VIP) Q1FY18 revenue, at INR4.0bn, moved up 9% YoY and EBITDA at INR613mn (up 22.5% YoY) surpassed estimates by 12%, despite GST related de-stocking (June CSD sales were subdued). Revenue growth was entirely driven by domestic business and volumes. Gross and EBITDA margins spurred by 90bps and 170bps YoY, respectively, led by INR appreciation, cost controls and improved product mix. While GST could slacken the conversion from unorganised to organised impacting sales in short term, we remain positive owing to: (1) sustained margin expansion due to favourable currency and operating leverage; (2) VIP's strengthening leadership drawing on its portfolio of brands across price points; and (3) pricing power reflected in its 6% price hike to pass on the GST impact (tax rate increased from 18% to 28%). Thus, we raise our target multiple to the middle band at 25x FY19E EPS (22x earlier) based on strong 26% earnings CAGR and RoCE expansion by 613bps to 39% over FY17-19E. Maintain 'BUY with a revised TP of INR225 (INR204 earlier).

Volume-led revenue spurt backed by strong margin expansion

Domestic revenue growth of 9% was entirely volume led. This was despite GST related de-stocking in CSD, which impacted June sales. While July sales are also expected to be tepid, management expects GST impact to be neutralised within a year. Further, VIP hiked prices by 6% on June 15, which should help to partially pass on higher GST rate. Gross margin expanded by 90bps YoY to 45.5% on INR appreciation and improved product mix, leading to EBITDA margin expansion by 170bps YoY to 15.3%.

Capacity expansion announced in Bangladesh

VIP announced capex of INR250mn to double manufacturing capacity in Bangladesh. It will take around 12 months for the project to get completed and will lead to reduction of sourcing from China by 5-10% and allow better control over its operations.

Outlook and valuations: Strong visibility; maintain 'BUY'

We expect GST to be a short term dampener. But, VIP is well positioned with rising penetration of branded luggage leading to revenue CAGR of 14% and sustained margin expansion leading to 26% earnings CAGR and RoCE expansion by 613bps over FY17-19E. Hence, we raise our target multiple to 25x FY19E. At CMP, the stock trades at 19.8x FY19E EPS. Maintain 'BUY' with a revised target price of INR225.

Financials (Consolidated)

(INR mn)

Year to March	Q1FY18	Q1FY17	Y-o-Y %	Q4FY17	Q-o-Q %	FY17	FY18E	FY19E
Revenues	3,998	3,669	9.0	3,072	30.1	12,752	14,165	16,442
EBITDA	613	500	22.5	307	99.5	1,318	1,638	2,016
Adj PAT	410	314	30.4	189	116.6	839	1,064	1,325
Dil. EPS (INR)	2.9	2.2	30.4	1.3	116.6	5.9	7.5	9.4
Dil. P/E (x)						31.3	24.7	19.8
EV/EBITDA (x)						19.3	15.3	12.2
ROAE (%)						22.4	24.4	26.5

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: VIPI.BO, B: VIP IN)

CMP	: INR 186
Target Price	: INR 225
52-week range (INR)	: 217 / 112
Share in issue (mn)	: 141.3
M cap (INR bn/USD mn)	: 26 / 412
Avg. Daily Vol. BSE/NSE ('000)	: 496.6

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	52.5	52.5	52.5
MF's, FI's & BKs	16.5	16.8	17.9
FII's	4.4	4.2	3.3
Others	26.6	26.5	26.3
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	5.2	(1.5)	(6.8)
3 months	3.7	(10.9)	(14.6)
12 months	22.0	40.3	18.3

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Q1FY18: Key highlights

- **Revenue:** Top line grew 9% YoY, driven entirely by domestic growth as international business was flat. This growth was also entirely volume driven. April and May was strong, however there was slowdown in June due to GST related destocking. Management believes the company gained market share due to strong performance, despite a tough June. A price hike of 6% was taken mid-June to partially absorb the impact of higher tax rate under GST on margins.
- **Margin:** Gross margin improved by 90bps to 45.5% due to a stronger INR and improved product mix. This led to EBITDA margin expansion by 170bps YoY to 15.3%, which was further backed by cost controls as other expenses, as a percentage of revenue, fell by 112bps YoY. This was VIP's highest EBITDA margin in the recent past. However, the impact of GST on margin is a concern as the price hike taken in June may not entirely offset the increase in tax rate (from 18-19% earlier to 28% under GST) going ahead.
- **Brand-wise:** *Skybags* continued to be the best performing brand, logging the fastest growth. It has become the leading brand for backpacks. Focus is also on the value brand, *Aristocrat*, to counter stiff competition, and it is doing well. The logo was redesigned and got celebrity endorsements for the brand. *VIP* continues to be tepid, however management is focusing on reinventing the brand through campaigns. *Caprese* and *Carlton* are high-margin brands and continue to grow well, though they are still a small proportion of revenues. Gross margin for *Caprese* handbags is around 5% more than luggage.
- **Channels:** Modern trade continued to grow well, while e-commerce has also gathered pace. Management guided that June was challenging for CSD channel as the company undertook destocking of inventory taxed under the old regime before placing orders for GST taxed goods. Strong impact was felt in July and August may also be slow for the segment. Other channels have done well and were not impacted by GST as much. The transition to GST in modern trade was swift.
- **GST:** The applicable GST rate for VIP is 28%, which is significantly higher than the existing blended tax rate of 18-19%. This rate may also impact margins going forward, and management believes it may take up to a year for margins to normalise.
- **Bangladesh subsidiary:** An investment of INR250mn has been announced to enhance manufacturing capacity there. This will double capacity (from current 70,000 units), and will take around 12 months to become operational. This will lead to sourcing from China declining by 5-10%. The plant manufactures soft luggage and caters to all of VIP's brands. VIP India purchases from Bangladesh in the same way and same prices as it does from Chinese vendors, though manufacturing margins are added in consolidation. This subsidiary offers a strategic alternative to China as it gives more control over operations. The subsidiary currently has around 450 workers as operations are labour intensive.

Chart 1: Movement of USD/INR

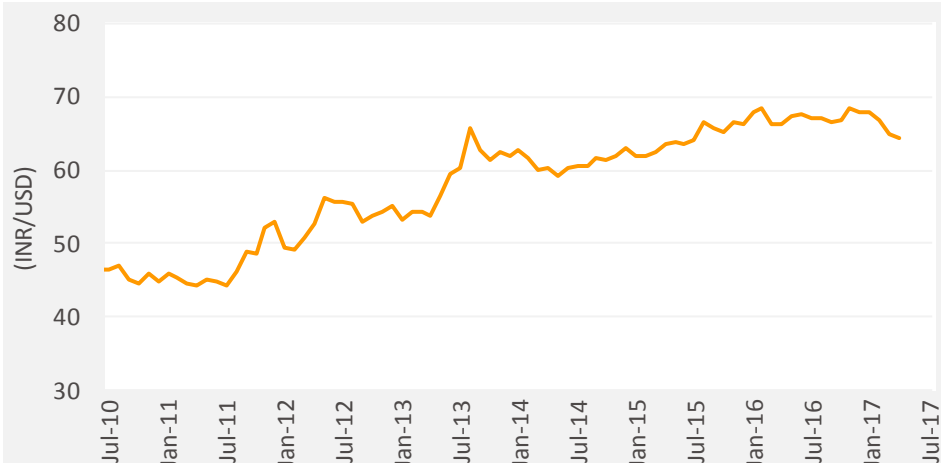
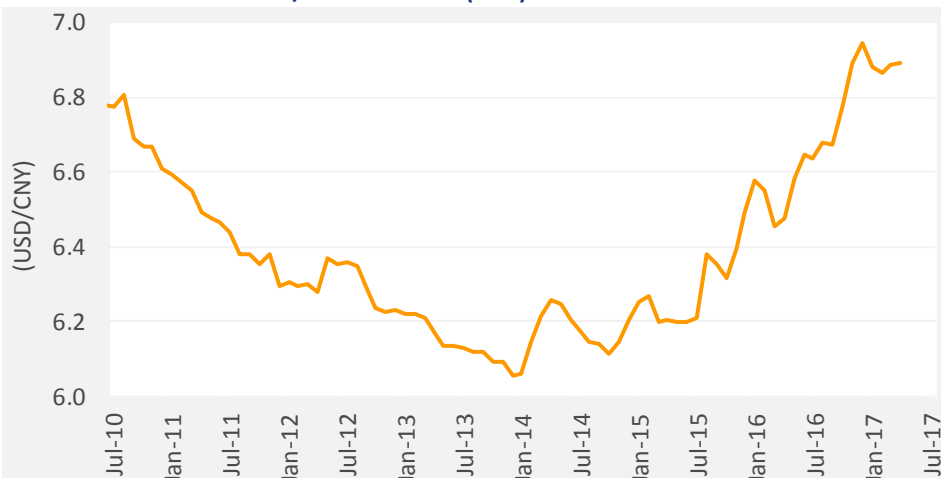
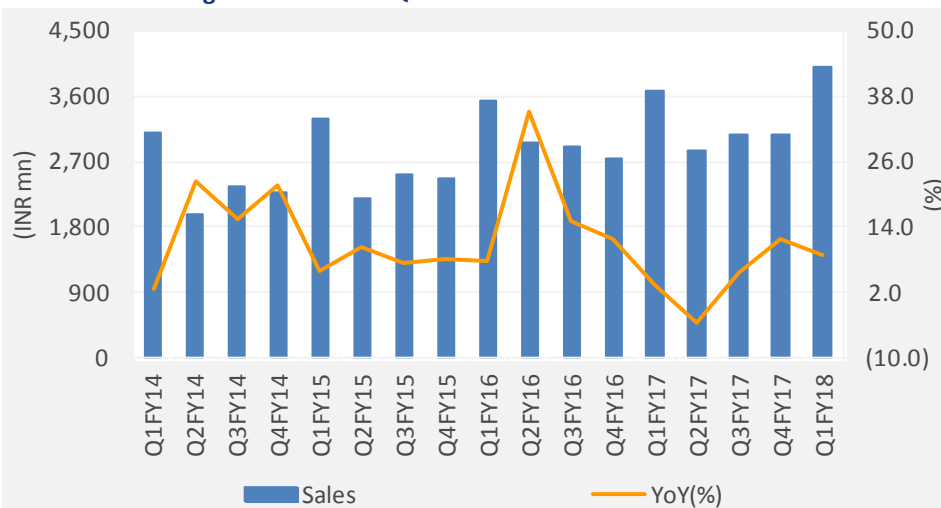


Chart 2: Movement of USD/ Chinese Yuan (CNY)



Source: Bloomberg, Edelweiss research

Chart 3: Revenues grew 9% YoY for Q1FY18



Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	3,998	3,669	9.0	3,072	30.1	12,752	14,165	16,442
Raw material	2,180	2,034	7.2	1,590	37.1	6,760	7,456	8,655
Staff costs	372	329	12.9	357	4.1	1,415	1,487	1,644
Other expenses	834	806	3.4	818	1.9	3,259	3,584	4,127
Total expenditure	3,385	3,169	6.8	2,765	22.4	11,434	12,527	14,426
EBITDA	613	500	22.5	307	99.5	1,318	1,638	2,016
Depreciation	30	38	(20.7)	33	(7.4)	136	139	147
EBIT	583	462	26.1	275	112.2	1,182	1,498	1,869
Other income	23	10	122.5	8	180.2	59	69	84
Interest	-	1	(70.0)	4	(91.4)	6	2	4
Add: Prior period items								
Add: Exceptional items								
Profit before tax	605	471	28.4	279	116.8	1,235	1,565	1,949
Provision for taxes	195	157	24.4	90	117.1	397	501	624
Minority interest								
Associate profit share								
Reported net profit	410	314	30.4	189	116.6	839	1,064	1,325
Adjusted Profit	410	314	30.4	189	116.6	839	1,064	1,325
Equity capital(FV INR10)	283	283		283		283	283	283
Diluted shares (mn)	141	141		141		141	141	141
Adjusted Diluted EPS	2.9	2.2	30.4	1.3	116.6	5.9	7.5	9.4
Diluted P/E (x)	-	-		-		31.3	24.7	19.8
EV/EBITDA (x)	-	-		-		19.3	15.3	12.2
ROAE (%)	-	-		-		22.4	24.4	26.5
Market cap / rev. (x)	-	-		-		2.1	1.9	1.6
As % of net revenues	-	-		-				
Raw material	54.5	55.4		51.7		53.0	52.6	52.6
Employee cost	9.3	9.0		11.6		11.1	10.5	10.0
Other expenses	20.9	22.0		26.6		25.6	25.3	25.1
EBITDA	15.3	13.6		10.0		10.3	11.6	12.3
Reported net profit	10.2	8.6		6.2		6.6	7.5	8.1

Company Description

VIP, the flagship company of DG PIRAMAL Group, was established in 1968. It began manufacturing suitcases in 1971. The company operates in luggage and moulded furniture segments. The company manufactures a range of hard-sided and soft-sided luggage including trolleys, suitcases, duffels and overnight travel solutions, executive cases, backpacks and school bags. Key brands are VIP, Skybags, Alfa, Aristocrat, Carlton, Caprese. The company's manufacturing facilities are located at Nashik and in Haridwar (Uttarakhand).

Investment Theme

VIP, which began as a moulding furniture company in 1970, is now the second largest player in the world and largest in Asia commanding ~50% market share in luggage market in India, followed by Samsonite and Safari. The company derives ~45% of its sales from the VIP brand, 27% plus from Skybags brand, 20% from Aristocrat and Alfa combined, and ~8% combined from premium Carlton and Caprese brands.

Key Risks

Stiff competition from organised sector

Increase in competition from the organised sector can affect VIP's sales and profitability growth as players like Samsonite post having grown strong in market share are now focused on profitability, while players like Safari are strongly focused on gaining market share.

Increase in raw material prices

The company currently derives ~30% of its revenues from hard luggage that is manufactured in-house. Major raw materials consumed in manufacture of hard luggage are polypropylene and aluminum. Any substantial rise in their prices will adversely impact the company's margins and, hence, profitability.

Fluctuation in exchange rates, particularly appreciation of Yuan

Any appreciation in Yuan could hit VIP's realizations as the company imports its entire soft luggage (70% of sales) from China. Also, the impact of currency depreciation, is passed with a lag. In this context, appreciation of the Yuan is particularly harmful for earnings.

Working capital increase from growing modern trade

Working capital of the company can deteriorate if the modern trade channel grows aggressively.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Company				
Domestic growth	16.3	8.5	12.0	17.0
Exports	15.0	4.0	2.0	6.0
Raw Material (% net rev)	54.5	53.0	52.6	52.6
Employee cost (% of rev)	10.3	11.1	10.5	10.0
Selling exp. (% Net Rev)	26.3	25.6	25.3	25.1
Avg. Interest rate (%)	5.2	8.0	8.0	8.0
Depreciation rate (%)	5.1	4.8	4.7	4.7
Tax rate (%)	30.1	32.1	32.0	32.0
Soft luggage %	79.0	79.0	84.0	84.0
Hard luggage %	21.0	21.0	16.0	16.0
Net borrowings (INR mn)	143	-	50	50
Capex (INR mn)	21	70	220	100
Debtor days	39	39	35	36
Inventory days	142	154	147	144
Payable days	77	83	76	74
Cash conversion cycle	104	110	106	106

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	12,165	12,752	14,165	16,442
Materials costs	6,627	6,760	7,456	8,655
Gross profit	5,537	5,992	6,709	7,787
Employee costs	1,259	1,415	1,487	1,644
Other Expenses	3,200	3,259	3,584	4,127
Total operating expenses	11,086	11,434	12,527	14,426
EBITDA	1,079	1,318	1,638	2,016
Depreciation	142	136	139	147
EBIT	937	1,182	1,498	1,869
Add: Other income	25.7	59.1	68.66	84.24
Less: Interest Expense	12	6	2	4
Profit Before Tax	951	1,235	1,565	1,949
Less: Provision for Tax	287	397	501	624
Reported Profit	665	839	1,064	1,325
Adjusted Profit	665	839	1,064	1,325
Shares o /s (mn)	141	141	141	141
Adjusted Basic EPS	4.7	5.9	7.5	9.4
Diluted shares o/s (mn)	141	141	141	141
Adjusted Diluted EPS	4.7	5.9	7.5	9.4
Adjusted Cash EPS	5.6	6.9	8.7	10.7
Dividend per share (DPS)	2.0	2.4	3.0	3.6
Dividend Payout Ratio(%)	51.2	48.5	47.8	46.1

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	36.7	36.7	35.8	35.1
Cost of goods sold	54.5	53.0	52.6	52.6
Depreciation	1.2	1.1	1.0	0.9
Interest Expense	0.1	-	-	-
EBITDA margins	8.9	10.3	11.6	12.3
Net Profit margins	5.5	6.6	7.5	8.1

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	16.1	4.8	11.1	16.1
EBITDA	39.3	22.2	24.2	23.1
PBT	45.2	29.9	26.7	24.6
Adjusted Profit	52.5	26.2	26.9	24.6
EPS	52.5	26.2	26.9	24.6

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	283	283	283	283	
Reserves & Surplus	3,111	3,801	4,356	5,071	
Shareholders' funds	3,393	4,084	4,639	5,354	
Long term borrowings	143	-	50	50	
Total Borrowings	143	-	50	50	
Long Term Liabilities	69	97	106	115	
Def. Tax Liability (net)	(41)	(51)	(51)	(51)	
Sources of funds	3,564	4,129	4,743	5,468	
Gross Block	2,787	2,857	3,077	3,177	
Net Block	656	600	680	633	
Capital work in progress	11	6	40	20	
Intangible Assets	10	11	11	11	
Total Fixed Assets	677	616	731	664	
Non current investments	-	-	-	-	
Cash and Equivalents	80	785	1,297	1,701	
Inventories	2,874	2,826	3,166	3,675	
Sundry Debtors	1,493	1,210	1,514	1,757	
Loans & Advances	630	558	596	638	
Other Current Assets	53	45	50	55	
Current Assets (ex cash)	5,051	4,639	5,325	6,124	
Trade payable	1,608	1,457	1,634	1,897	
Other Current Liab	636	454	977	1,125	
Total Current Liab	2,244	1,912	2,611	3,022	
Net Curr Assets-ex cash	2,807	2,728	2,715	3,102	
Uses of funds	3,564	4,129	4,743	5,468	
BVPS (INR)	24.0	28.9	32.8	37.9	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	665	839	1,064	1,325	
Add: Depreciation	142	136	139	147	
Interest (Net of Tax)	8	4	1	3	
Others	(584)	603	(1)	(812)	
Less: Changes in WC	304	(319)	(21)	379	
Operating cash flow	534	1,263	1,182	1,042	
Less: Capex	88	82	254	80	
Free Cash Flow	446	1,181	928	962	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow	534	1,263	1,182	1,042	
Investing cash flow	(84)	(729)	(210)	(24)	
Financing cash flow	(447)	(513)	(461)	(614)	
Net cash Flow	3	21	512	403	
Capex	(88)	(82)	(254)	(80)	
Dividend paid	(270)	(366)	(509)	(610)	

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
ROAE (%)	20.6	22.4	24.4	26.5	
ROACE (%)	27.9	32.6	35.7	38.7	
ROA	19.1	21.8	24.0	26.0	
Debt/EBITDA (x)	0.1	-	-	-	
Debt/Equity (x)	-	-	-	-	
Interest Coverage Ratio	79.4	207.4	749.1	467.2	
Debt / Cap employed (%)	65.8	45.1	55.0	55.3	

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover	3.5	3.3	3.2	3.2	
Fixed Asset Turnover	17.6	20.0	21.8	24.6	
Equity Turnover	3.8	3.4	3.2	3.3	

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)	4.7	5.9	7.5	9.4	
Y-o-Y growth (%)	52.5	26.2	26.9	24.6	
Adjusted Cash EPS (INR)	5.6	6.9	8.7	10.7	
Diluted P/E (x)	39.5	31.3	24.7	19.8	
P/B (x)	7.7	6.4	5.7	4.9	
EV / Sales (x)	2.2	2.0	1.8	1.5	
EV / EBITDA (x)	24.4	19.3	15.3	12.2	
Dividend Yield (%)	1.1	1.3	1.6	1.9	

Additional Data

Directors Data

Dilip G Piramal	Chairman & Managing Director	Radhika Piramal	Vice Chairperson & Executive Director
Ashish K Saha	Director Works	DK Poddar	Independent - Non-Executive Director
Vijay Kalantri	Independent - Non-Executive Director	G.L. Mirchandani	Independent - Non-Executive Director
Nabankur Gupta	Independent - Non-Executive Director	Rajeev Gupta	Independent - Non-Executive Director
Amit Jatia	Independent - Non-Executive Director		

Auditors - Price Waterhouse Chartered Accountants LLP

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
SBI Funds	4.11	Religare India AMC	1.45
Reliance Capital	3.03	Dimensional Fund Advisors	1.18
Templeton Asset Management	2.35	ICICI Pru AMC	0.86
Birla Sun Life AMC	2.10	Van Eck Associates	0.28
HDFC Asset Management	1.55	LIC Nomura Mutual Fund	0.19

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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Aditya Narain

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Coverage group(s) of stocks by primary analyst(s): Miscellaneous

AIA Engineering, Apar Industries Ltd, Balkrishna Industries, VIP Industries

Recent Research

Date	Company	Title	Price (INR)	Recos
31-Jul-17	Balkrishna Industries	Healthy volume visibility; temporary blip in margins; <i>Result Update</i>	1,626	Buy
14-Jul-17	Balkrishna Industries	Mining opportunity abounds amid huge surplus capacity; <i>Visit Note</i>	1,678	Buy
01-Jun-17	Apar Industries	Temporary hiccups in FY18; Brighter FY19 envisaged; <i>Result Update</i>	848	Buy

Distribution of Ratings / Market Cap

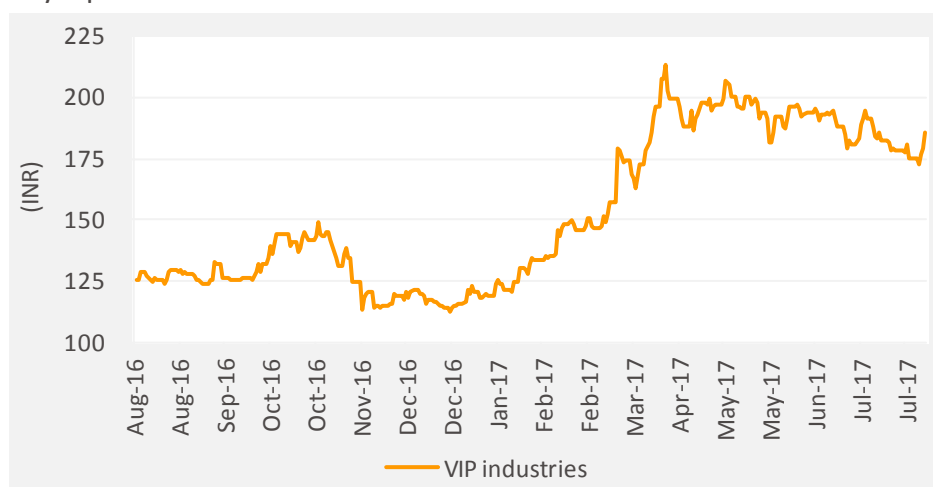
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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