

May 27, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	229		334	
Sales (Rs. m)	13,989	17,137	16,626	20,364
% Chng.	(15.9)	(15.8)		
EBITDA (Rs. m)	1,808	2,793	2,577	3,482
% Chng.	(29.8)	(19.8)		
EPS (Rs.)	4.4	9.2	8.5	13.4
% Chng.	(48.0)	(31.5)		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	17,847	17,183	13,989	17,137
EBITDA (Rs. m)	2,247	2,913	1,808	2,793
Margin (%)	12.6	17.0	12.9	16.3
PAT (Rs. m)	1,453	1,602	624	1,295
EPS (Rs.)	10.3	11.3	4.4	9.2
Gr. (%)	14.6	10.3	(61.0)	107.4
DPS (Rs.)	3.2	3.2	1.5	3.0
Yield (%)	1.5	1.5	0.7	1.4
RoE (%)	25.0	18.6	9.6	17.5
RoCE (%)	31.2	32.3	13.2	26.2
EV/Sales (x)	1.7	1.8	2.1	1.7
EV/EBITDA (x)	13.9	10.4	16.6	10.3
PE (x)	20.9	19.0	48.7	23.5
P/BV (x)	5.2	5.0	4.7	4.1

Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.520 / Rs.188
Sensex / Nifty	30,609 / 9,029
Market Cap	Rs.30bn/ \$ 402m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.233.84m

Shareholding Pattern (%)

Promoter's	53.46
Foreign	4.76
Domestic Institution	13.61
Public & Others	28.17
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.9	(51.1)	(51.2)
Relative	3.3	(34.6)	(37.1)

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Prolonged demand slump on the cards

Quick pointers

- COVID-19 impact on revenue/PBT was at Rs1.2bn/Rs260mn in 4QFY20.
- Gross margin expands to 57.6% due to higher procurement from Bangladesh, increasing share of hard luggage & reduction in RM costs.

We cut our EPS estimates by 48%/32% for FY21E/FY22E as 1) discretionary spending post-COVID is expected to be weak resulting in a prolonged demand slump 2) aggressive discounting by players to gain market share can result in heightened competitive intensity and 3) sales in 1Q (strongest quarter for VIP) is expected to be negligible due to lockdown. Further, we expect working capital issues to emerge (cash conversion cycle to be at 130 days in FY21 versus 91 days in FY20) as inventory liquidation (advance orders placed to vendors during Oct/Nov 2019) and receivable collection (recoverability issue can emerge due to tight liquidity situation) can prove to be a challenge. While VIP has undertaken cost optimization exercise to reduce fixed cost outgo (30% reduction envisaged) and margin performance has been commendable (best ever GM of 57.6%), we believe COVID-19 has structurally derailed the growth momentum. We thus maintain our HOLD rating and revise our TP to Rs229 (earlier Rs334) effectively valuing the stock at 25x (no change in target multiple) FY22 EPS of Rs9.2.

Topline slumps as revenue for March month falls 76%: Topline declined 28.4% YoY to Rs3,113mn (PLe of Rs3,993mn) as there was a revenue loss of Rs1.2bn due to COVID-19. Revenues in Jan & Feb of 2020 stood at Rs2.8bn. However, revenue for the month of March 2020 was only Rs0.3bn (Rs1.35bn in March 2019; a fall of 76%).

Gross margins at record high of 57.6%: Gross margins expanded 10,07bps YoY to 57.6% as 1) procurement from Bangladesh increased 2) contribution of hard luggage increased and 3) there was reduction in RM costs.

Ind-AS adjusted EBITDA declined 63.2% YoY: EBITDA declined 19.4% YoY to Rs319mn (PLe of Rs535mn) while margin improved 110 bps YoY to 10.2%. However, excluding the impact of Ind-AS 116, EBITDA declined 63.2% YoY to Rs146mn with margins declining to 4.7% (9.1% in 4QFY19).

Con-call highlights: 1) Cost optimization initiatives have resulted in 30% reduction in cost 2) No ad-spends planned for FY21 3) Provision created on debtors/inventory due to exceptional risk arising from COVID-19 is Rs80-85mn/Rs35-40mn respectively 4) Aggressive discounts are possible post-COVID to boost sales 5) 90% of RM from Bangladesh comes from China 6) ~56 stores in green zones are open 7) Additional Rs1.1bn of CC limit has been sanctioned to meet liquidity needs 8) Fire insurance claim of Rs485mn is expected to be received in FY21 9) Backpacks sales/season will move to Aug/Sep in FY21 once schools open 10) SL:HL mix is 70:30 11) VIP has 250 EBOs – 50 to 100 might be closed due to demand slump 12) Industry level e-com sales is ~5-15% and can rise to ~30%. 13) CSD contribution for industry has reduced to ~15% in FY20 14) For ~60% of EBOs rent waiver is expected as force majeure has been invoked 15) There is no contractual labor in Bangladesh. For India, contractual work force is ~50%.

Exhibit 1: Q4FY20 Result Overview - Consolidated (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr.	Q3FY20	FY20	FY19	YoY gr.
Net sales	3,113	4,350	-28.4%	4,324	17,183	17,847	-3.7%
Total raw material cost	1,321	2,283	-42.2%	2,018	8,059	9,044	-10.9%
<i>As a % of sales</i>	<i>42.4%</i>	<i>52.5%</i>		<i>46.7%</i>	<i>46.9%</i>	<i>50.7%</i>	
Gross Profit	1,793	2,067	-13.3%	2,306	9,124	8,803	3.6%
<i>Gross margin</i>	<i>57.6%</i>	<i>47.5%</i>		<i>53.3%</i>	<i>53.1%</i>	<i>49.3%</i>	
Employee expenses	418	551	-24.2%	564	2,105	2,011	4.7%
<i>As a % of sales</i>	<i>13.4%</i>	<i>12.7%</i>		<i>13.0%</i>	<i>12.2%</i>	<i>11.3%</i>	
Other expenses	1,056	1,120	-5.7%	1,062	4,106	4,545	-9.7%
<i>As a % of sales</i>	<i>33.9%</i>	<i>25.7%</i>		<i>24.6%</i>	<i>23.9%</i>	<i>25.5%</i>	
EBITDA	319	396	-19.4%	680	2,913	2,247	29.6%
<i>EBITDA margin</i>	<i>10.2%</i>	<i>9.1%</i>		<i>15.7%</i>	<i>17.0%</i>	<i>12.6%</i>	
Depreciation	218	47	369.0%	217	839	166	404.9%
EBIT	101	349	-71.2%	463	2,074	2,081	-0.3%
<i>EBIT margin</i>	<i>3.2%</i>	<i>8.0%</i>		<i>10.7%</i>	<i>12.1%</i>	<i>11.7%</i>	
Interest cost	51	7	631.4%	56	230	15	1443.6%
Other income	55	20	179.2%	18	125	83	50.2%
PBT	105	362	-71.1%	425	1,969	2,149	-8.4%
Exceptional items	-	-	NM	-	485	-	NM
Tax expenses	9	109	-91.5%	83	367	697	-47.4%
<i>Tax rate</i>	<i>8.9%</i>	<i>30.1%</i>		<i>19.5%</i>	<i>18.6%</i>	<i>32.4%</i>	
PAT	95	253	-62.3%	342	1,117	1,453	-23.1%
<i>PAT margin</i>	<i>3.1%</i>	<i>5.8%</i>		<i>7.9%</i>	<i>6.5%</i>	<i>8.1%</i>	
EPS (Rs)	0.7	1.8	-62.6%	2.4	7.9	10.3	-23.1%
Adjusted PAT	95	253	-62.3%	342	1,602	1,453	10.3%
<i>Adjusted PAT margin</i>	<i>3.1%</i>	<i>5.8%</i>		<i>7.9%</i>	<i>9.3%</i>	<i>8.1%</i>	
Adjusted EPS (Rs)	0.7	1.8	-62.3%	2.4	11.3	10.3	10.3%

Source: Company, PL

Exhibit 2: Sales & profitability profile of Bangladesh operations

Particulars (Rs mn)	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20*	4Q'20	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	252	259	389	392	430	513	657	720	490	570	1,292	2,320	3,016	3,468
PAT	40	27	61	47	40	57	83	160	83	95	175	340	483	555
<i>PAT margin</i>	<i>15.9%</i>	<i>10.4%</i>	<i>15.7%</i>	<i>12.0%</i>	<i>9.3%</i>	<i>11.1%</i>	<i>12.6%</i>	<i>22.2%</i>	<i>16.9%</i>	<i>16.7%</i>	<i>13.5%</i>	<i>14.7%</i>	<i>16.0%</i>	<i>16.0%</i>
<i>Bangladesh's sales a % of total sales</i>	<i>4.9%</i>	<i>6.4%</i>	<i>9.0%</i>	<i>9.0%</i>	<i>7.6%</i>	<i>12.4%</i>	<i>15.2%</i>	<i>23.1%</i>	<i>3.9%</i>	<i>4.0%</i>	<i>7.2%</i>	<i>13.5%</i>	<i>21.6%</i>	<i>20.2%</i>
Standalone PAT#	599	310	196	184	860	302	266	NM	763.9	1,186	1,288	887		
<i>Standalone PAT margin</i>	<i>11.6%</i>	<i>7.7%</i>	<i>4.5%</i>	<i>4.2%</i>	<i>15.2%</i>	<i>7.3%</i>	<i>6.1%</i>	<i>NM</i>	<i>6.1%</i>	<i>8.4%</i>	<i>7.2%</i>	<i>5.2%</i>		

Source: Company, PL # PAT for 1QFY20 is adjusted for exceptional loss of Rs485.0 mn * Figures for 3QFY20 were not shared

Exhibit 3: Gross & EBITDA margin trend is volatile due to fluctuation in currency & raw material prices

Particulars	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20*	2QFY20*	3QFY20*	4QFY20*
Gross margin	45.5%	48.2%	51.0%	54.6%	50.3%	50.8%	47.7%	47.5%	50.4%	53.3%	53.3%	57.6%
EBITDA margin	15.3%	11.8%	12.2%	15.0%	18.6%	12.7%	8.8%	9.1%	19.2%	12.1%	11.7%	4.7%

Source: Company, PL *Ind-AS adjusted EBITDA margin

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	17,847	17,183	13,989	17,137
YoY gr. (%)	26.6	(3.7)	(18.6)	22.5
Cost of Goods Sold	9,044	8,059	6,737	8,295
Gross Profit	8,803	9,124	7,251	8,843
Margin (%)	49.3	53.1	51.8	51.6
Employee Cost	2,011	2,105	1,962	2,194
Other Expenses	4,545	4,106	3,481	3,856
EBITDA	2,247	2,913	1,808	2,793
YoY gr. (%)	16.2	29.6	(37.9)	54.5
Margin (%)	12.6	17.0	12.9	16.3
Depreciation and Amortization	166	839	813	857
EBIT	2,081	2,074	995	1,937
Margin (%)	11.7	12.1	7.1	11.3
Net Interest	15	230	247	308
Other Income	83	125	86	103
Profit Before Tax	2,149	1,484	834	1,731
Margin (%)	12.0	8.6	6.0	10.1
Total Tax	697	367	210	436
Effective tax rate (%)	32.4	24.7	25.2	25.2
Profit after tax	1,453	1,117	624	1,295
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,453	1,602	624	1,295
YoY gr. (%)	14.6	10.3	(61.0)	107.4
Margin (%)	8.1	9.3	4.5	7.6
Extra Ord. Income / (Exp)	-	(485)	-	-
Reported PAT	1,453	1,117	624	1,295
YoY gr. (%)	14.6	(23.1)	(44.1)	107.4
Margin (%)	8.1	6.5	4.5	7.6
Other Comprehensive Income	(1)	20	-	-
Total Comprehensive Income	1,452	1,137	624	1,295
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	10.3	11.3	4.4	9.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	1,635	4,947	5,256	5,765
Tangibles	1,581	4,865	5,165	5,665
Intangibles	55	82	91	100
Acc: Dep / Amortization	468	1,307	2,120	2,977
Tangibles	443	1,264	2,061	2,901
Intangibles	26	43	59	76
Net fixed assets	1,167	3,640	3,136	2,788
Tangibles	1,138	3,600	3,104	2,764
Intangibles	29	39	32	24
Capital Work In Progress	58	28	28	28
Goodwill	-	-	-	-
Non-Current Investments	222	223	285	349
Net Deferred tax assets	49	67	26	62
Other Non-Current Assets	89	87	112	120
Current Assets				
Investments	-	404	404	404
Inventories	5,274	4,514	4,599	4,695
Trade receivables	2,986	2,674	2,491	2,723
Cash & Bank Balance	142	108	988	1,146
Other Current Assets	603	505	420	514
Total Assets	10,711	12,447	12,565	12,921
Equity				
Equity Share Capital	283	283	283	283
Other Equity	5,531	5,819	6,231	7,101
Total Networth	5,814	6,101	6,513	7,384
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	119	125	98	103
Other non current liabilities	1	1	1	2
Current Liabilities				
ST Debt / Current of LT Debt	862	322	1,000	-
Trade payables	3,184	2,920	2,108	2,582
Other current liabilities	707	571	451	454
Total Equity & Liabilities	10,711	11,874	11,992	12,348

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	2,149	1,484	834	1,731
Add. Depreciation	166	839	813	857
Add. Interest	15	230	247	308
Less Financial Other Income	83	125	86	103
Add. Other	(49)	233	-	-
Op. profit before WC changes	2,281	2,785	1,894	2,896
Net Changes-WC	(2,113)	539	(807)	(18)
Direct tax	(727)	(404)	(81)	(472)
Net cash from Op. activities	(559)	2,921	1,006	2,406
Capital expenditures	(591)	(443)	(300)	(500)
Interest / Dividend Income	36	2	-	-
Others	714	(410)	(45)	(16)
Net Cash from Inv. activities	159	(851)	(345)	(516)
Issue of share cap. / premium	-	-	-	-
Debt changes	862	(540)	678	(1,000)
Dividend paid	(541)	(861)	(212)	(424)
Interest paid	(15)	(27)	(247)	(308)
Others	-	-	-	-
Net cash from Fin. activities	306	(1,427)	219	(1,732)
Net change in cash	(94)	642	880	158
Free Cash Flow	(1,153)	2,468	706	1,906

Source: Company Data, PL Research

Key Financial Metrics

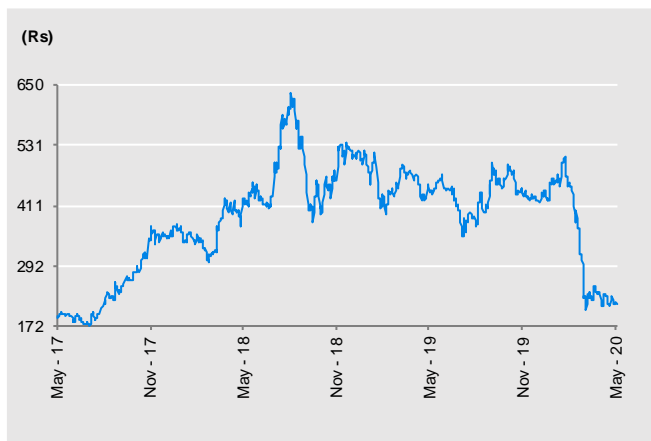
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	10.3	11.3	4.4	9.2
CEPS	11.5	17.3	10.2	15.2
BVPS	41.1	43.2	46.1	52.3
FCF	(8.2)	17.5	5.0	13.5
DPS	3.2	3.2	1.5	3.0
Return Ratio(%)				
RoCE	31.2	32.3	13.2	26.2
ROIC	21.0	23.4	14.4	21.6
RoE	25.0	18.6	9.6	17.5
Balance Sheet				
Net Debt : Equity (x)	0.1	0.0	(0.1)	(0.2)
Net Working Capital (Days)	104	91	130	103
Valuation(x)				
PER	20.9	19.0	48.7	23.5
P/B	5.2	5.0	4.7	4.1
P/CEPS	18.8	12.5	21.2	14.1
EV/EBITDA	13.9	10.4	16.6	10.3
EV/Sales	1.7	1.8	2.1	1.7
Dividend Yield (%)	1.5	1.5	0.7	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	5,642	4,123	4,324	3,113
YoY gr. (%)	9.0	2.6	0.5	(28.4)
Raw Material Expenses	2,797	1,926	2,018	1,321
Gross Profit	2,845	2,196	2,306	1,793
Margin (%)	50.4	53.3	53.3	57.6
EBITDA	1,251	662	680	319
YoY gr. (%)	30.0	29.7	80.3	(19.4)
Margin (%)	22.2	16.1	15.7	10.2
Depreciation / Depletion	192	212	217	218
EBIT	1,059	451	463	101
Margin (%)	18.8	10.9	10.7	3.2
Net Interest	53	70	56	51
Other Income	26	27	18	55
Profit before Tax	547	408	425	105
Margin (%)	9.7	9.9	9.8	3.4
Total Tax	196	79	83	9
Effective tax rate (%)	35.8	19.3	19.5	8.9
Profit after Tax	351	329	342	95
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	836	329	342	95
YoY gr. (%)	31.9	0.3	43.6	(62.3)
Margin (%)	14.8	8.0	7.9	3.1
Extra Ord. Income / (Exp)	(485)	-	-	-
Reported PAT	351	329	342	95
YoY gr. (%)	(44.6)	0.3	43.6	(62.3)
Margin (%)	6.2	8.0	7.9	3.1
Other Comprehensive Income	(5)	6	(2)	20
Total Comprehensive Income	346	336	340	116
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	5.9	2.3	2.4	0.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-20	Hold	334	241
2	25-Feb-20	Hold	472	451
3	12-Feb-20	Hold	472	486
4	03-Jan-20	BUY	501	440
5	07-Nov-19	BUY	530	454
6	03-Oct-19	BUY	540	465
7	30-Jul-19	BUY	488	386
8	04-Jul-19	BUY	564	440

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	179	133
3	Indian Railway Catering and Tourism Corporation	BUY	1,428	1,292
4	Inox Leisure	Hold	21	14
5	Music Broadcast	Hold	39	27
6	Navneet Education	BUY	82	66
7	PVR	BUY	1,518	1,002
8	S Chand and Company	Accumulate	67	39
9	V.I.P. Industries	Hold	334	241
10	Zee Media Corporation	Under Review	-	14

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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