

Recovery path to be elongated...

The Covid-19 pandemic has had a grievous impact on the global travel industry and retail environment. Revenues for Q4FY20 fell 28% YoY to ₹ 311.3 crore. While sales in January-February fell 7% YoY to ₹ 279.0 crore, March was a complete washout with revenues down 76% YoY to ₹ 32.0 crore. The company's procurement from own facility in Bangladesh increased substantially from 10-15% to 55% in Q4FY20. This translated into gross margin expansion of ~1000 bps to 57.6%. Owing to negative operating leverage, EBITDA margins (adjusting for Ind-AS 116) contracted 370 bps YoY to 5.4%. PAT fell 62% YoY to ₹ 9.5 crore. In a bid to mitigate the impact to a certain extent, the company is aggressively reducing fixed expenses (reduction ~33%) for FY21E. Furthermore, VIP is planning to source majority of its soft luggage from its facility in Bangladesh to aid gross margins. Since luggage is a proxy play to travel & tourism, the outlook for VIP appears bleak in the near term.

Challenging times ahead for luggage industry

VIP's revenue trajectory had decelerated in FY20 even before the Covid-19 impact owing to multiple headwinds like muted air traffic growth, challenging market environment and certain loss of market share to competitors. For YTD-February 2020, revenues grew mere 2.3%. Owing to substantial loss of sales in March (down 76%), VIP exited FY20 with revenue-de growth of 4% YoY to ₹ 1718.3 crore. With several restrictions on leisure and business travel in the near term, the luggage sector will be the hardest hit in FY21E. With Q1 being a critical period for the company (30% of overall revenues, ~45% profitability), substantial loss in sales in April-May: (5% of normal sales) will have material impact on FY21E performance. VIP is mulling aggressively reducing its operating expenses (by ~30%) in terms of a) significant reduction in advertising spend, b) temporary layoffs, c) rent waivers & d) closure of certain EBOs (plans to shut 50-100 stores). Due to low scale in FY21E, VIP expects to source almost 100% of its soft luggage requirements from its own manufacturing facility in Bangladesh (tripled capacity in FY20E). However, liquidation of old inventory may cap gross margin benefits. As schools starts reopening from September onwards, the management expects demand revival for backpacks, to a certain extent.

Valuation & outlook

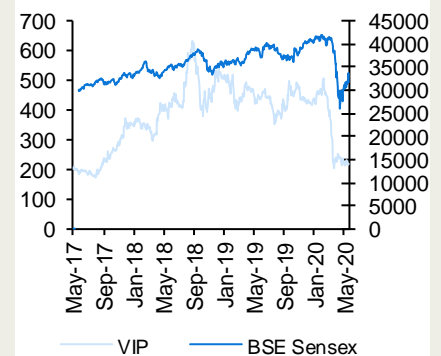
VIP Industries has, over the years, maintained balance sheet prudence with stringent working capital policy (25% of sales), virtually debt free status and healthy RoCE: 30%+. While debt on the books is currently at ~₹ 32.0 crore, the company has withdrawn ~₹ 100 crore from its sanctioned credit limits (can extend it to ₹ 200 crore) to navigate through challenging liquidity conditions. Owing to its strong balance sheet and being market leader, VIP's business model has the inherent ability to tide over tough market conditions better than small peers. We remain cautious on the near term outlook, amid headwinds faced by the luggage industry. We maintain **HOLD** rating on the stock with a revised target price of ₹ 220 (30x FY22E EPS).



Particulars

Particulars	Amount
Market Capitalisation (₹crore)	2,910.8
Total Debt (FY 20) (₹crore)	32.2
Cash (FY 20) (₹crore)	10.8
EV (₹crore)	2,932.2
52 Week H / L	520 /187
Equity Capital (₹crore)	28.3
Face Value (₹)	2.0

Price Chart



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Key Financial Summary

₹ crore	FY19	FY20E*	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	1,784.7	1,718.3	1,012.2	1,454.7	-8.0%
EBITDA	224.7	291.3	117.4	230.6	-11.0%
Net Profit	145.3	111.7	24.9	103.7	-3.7%
P/E (x)	20.0	26.1	116.8	28.1	
EV/Sales (x)	1.7	1.7	2.9	2.0	
EV/EBITDA (x)	13.3	9.9	25.2	12.3	
RoCE (%)	32.4	34.2	7.6	21.5	
RoE (%)	25.0	18.3	3.9	14.7	

Source: ICICI Direct Research, Company n Q1FY20, company reported and exceptional loss of ₹ 48.0 crore pertaining to fire at Ghaziabad warehouse.

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY19	FY20E	FY21E	FY22E
Net Sales	1,784.7	1,718.3	1,012.2	1,454.7
Growth (%)	26.6	(3.7)	(41.1)	43.7
Total Raw Material Cost	904.4	805.9	455.5	669.2
Gross Margins (%)	49.3	53.1	55.0	54.0
Employee Expenses	201.1	210.5	172.1	203.7
Other Expenses	454.5	410.6	267.2	351.3
Total Operating Expenditure	1,559.9	1,427.0	894.8	1,224.1
EBITDA	224.7	291.3	117.4	230.6
EBITDA Margin	12.6	17.0	11.6	15.9
Interest	1.5	23.0	22.7	23.9
Depreciation	16.6	83.9	69.4	78.0
Other Income	8.3	12.5	8.0	10.0
Exceptional Expense	-	(48.5)	-	-
PBT	214.9	148.4	33.3	138.6
Total Tax	69.7	36.7	8.4	34.9
Profit After Tax	145.3	111.7	24.9	103.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit/(Loss) after taxation	145.3	111.7	24.9	103.7
Add: Depreciation	16.6	83.9	69.4	78.0
Net Increase in Current Assets	-330.9	113.0	-17.3	24.2
Net Increase in Current Liabilities	118.1	-39.5	-86.4	29.5
CF from operating activities	-50.9	269.1	-9.3	235.5
(Inc)/dec in Investments	69.9	-40.1	36.6	0.0
(Inc)/dec in Fixed Assets	-57.7	-41.6	-20.4	-40.0
Others	-6.0	-231.1	11.8	0.0
CF from investing activities	6.3	-312.8	28.0	-40.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	86.2	-54.0	67.8	-50.0
Dividend Paid	-53.0	-73.0	0.0	-31.1
Others	1.9	167.2	-48.1	-50.0
CF from financing activities	35.0	40.2	19.8	-131.1
Net Cash flow	-9.6	-3.4	38.4	64.4
Opening Cash	23.8	14.2	10.8	49.2
Closing Cash	14.2	10.8	49.2	113.5

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY19	FY20E	FY21E	FY22E
Equity Capital	28.3	28.3	28.3	28.3
Reserve and Surplus	553.1	581.9	606.8	679.4
Total Shareholders funds	581.4	610.1	635.0	707.6
Total Debt	86.2	32.2	100.0	50.0
Non Current Liabilities	2.6	240.9	237.9	237.9
Source of Funds	670.1	883.2	972.9	995.5
Gross block	155.9	199.5	219.5	259.5
Less: Accum depreciation	44.3	66.9	91.3	119.3
Net Fixed Assets	111.6	132.5	128.2	140.2
Capital WIP	5.7	2.7	3.0	3.0
Intangible assets	3.0	4.0	4.1	4.1
Investments	3.0	43.1	6.5	6.5
Inventory	527.4	451.4	457.6	438.4
Cash	14.2	10.8	49.2	113.5
Debtors	298.6	267.4	277.3	271.0
Loans & Advances & Other CA	88.5	82.7	83.9	85.1
Total Current Assets	928.7	812.3	867.9	908.1
Creditors	318.4	292.0	194.1	223.2
Provisions & Other CL	82.6	69.5	81.0	81.5
Total Current Liabilities	401.0	361.5	275.2	304.7
Net Current Assets	527.7	450.7	592.8	603.4
LT L& A, Other Assets	19.1	250.2	238.4	238.4
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	670.1	883.2	972.9	995.5

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	10.3	7.9	1.8	7.3
Cash EPS	11.5	13.8	6.7	12.9
BV	41.1	43.2	44.9	50.1
DPS	3.8	5.2	0.0	2.2
Cash Per Share	1.0	0.8	3.5	8.0
Operating Ratios (%)				
EBITDA margins	12.6	17.0	11.6	15.9
PBT margins	12.0	8.6	3.3	9.5
Net Profit margins	8.1	6.5	2.5	7.1
Inventory days	107.9	95.9	165.0	110.0
Debtor days	61.1	56.8	100.0	68.0
Creditor days	65.1	62.0	70.0	56.0
Return Ratios (%)				
RoE	25.0	18.3	3.9	14.7
RoCE	32.4	34.2	7.6	21.5
Valuation Ratios (x)				
P/E	20.0	26.1	116.8	28.1
EV / EBITDA	13.3	9.9	25.2	12.3
EV / Sales	1.7	1.7	2.9	2.0
Market Cap / Revenues	1.6	1.7	2.9	2.0
Price to Book Value	5.0	4.8	4.6	4.1
Solvency Ratios				
Debt / Equity	0.1	0.1	0.2	0.1
Debt/EBITDA	0.4	0.1	0.9	0.2
Current Ratio	2.3	2.2	3.0	2.6
Quick Ratio	1.0	1.0	1.3	1.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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