

V.I.P. Industries (VIP IN)

Rating: HOLD | CMP: Rs262 | TP: Rs240

August 6, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	240		255	
Sales (Rs. m)	8,084	16,501	10,419	16,623
% Chng.	(22.4)	(0.7)		
EBITDA (Rs. m)	(397)	2,747	1,095	2,768
% Chng.	NA	(0.7)		
EPS (Rs.)	(7.5)	7.6	0.0	8.9
% Chng.	NA	(14.4)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	17,183	8,084	16,501	19,263
EBITDA (Rs. m)	2,913	(397)	2,747	3,390
Margin (%)	17.0	NA	16.7	17.6
PAT (Rs. m)	1,602	(1,062)	1,080	1,628
EPS (Rs.)	11.3	(7.5)	7.6	11.5
Gr. (%)	10.3	NA	NA	50.8
DPS (Rs.)	3.2	1.5	3.0	3.0
Yield (%)	1.2	0.6	1.1	1.1
RoE (%)	18.6	NA	19.6	24.3
RoCE (%)	32.3	NA	18.6	30.1
EV/Sales (x)	2.1	4.4	2.2	1.9
EV/EBITDA (x)	12.6	NA	13.4	10.6
PE (x)	23.1	NA	34.2	22.7
P/BV (x)	6.1	7.6	6.7	5.5

Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.520 / Rs.188
Sensex / Nifty	38,025 / 11,200
Market Cap	Rs.37bn/ \$ 493m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.504.65m

Shareholding Pattern (%)

Promoter's	53.46
Foreign	4.14
Domestic Institution	13.37
Public & Others	29.04
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.5	(45.1)	(32.4)
Relative	(3.5)	(40.4)	(34.3)

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Recovery not in sight

Quick Pointers:

- Fixed cost reduced to Rs250mn per month in 1QFY21.
- Plans to borrow Rs3bn (interest rate expected to be below 8%) to meet liquidity/working capital needs.
- Entered PPE market (masks & face shield) as a tactical opportunity.

We cut our sales estimates by 22% and now expect a loss of Rs1bn for FY21E as management commentary indicated that discretionary spending post-COVID is expected to be weak resulting in a prolonged demand slump. Further, as envisaged discounting is already evident and competitive intensity is likely to remain at elevated levels. While VIP has managed to cut cost by ~38%, fixed cost absorption will continue to remain a challenge given poor sales visibility. We expect gradual recovery in FY22E but have cut our PAT estimates by 14% odd as we incorporate interest outgo from the proposed borrowing program of Rs3bn which is lined up to meet liquidity/working capital needs. While entry into PPE is noteworthy the opportunity is short lived and contribution (sales expectation of Rs50mn odd per quarter) is insufficient to make any meaningful difference to the estimates. Since travel sector is worst hit by the ongoing pandemic 1) liquidity and 2) working capital & fixed cost management will remain dominant themes until green-shots on recovery are clearly evident. We thus maintain our HOLD rating on the stock with a revised TP of Rs240 (earlier 255) by assigning a P/E multiple of 25x (no change) on our Sep22 EPS estimate of Rs9.6.

Topline slumps due to COVID impact: Topline declined 92.9% YoY to Rs403mn (PL of Rs846mn) due to COVID impact. Revenues for the month of April and May were negligible with pick up happening in June.

Gross margins succumb to 42.3%: Gross margins declined to 42.3% (50.4% in 1QFY20) due to 1) higher discounts and 2) reduction in share of Bangladesh operations (revenues were NIL for the quarter).

EBITDA loss stood at Rs578mn: EBITDA loss stood at Rs578mn (PL of Rs173mn). VIP has managed to reduce the fixed cost to Rs250mn per month in 1QFY21 from Rs400mn per month prevailing earlier.

Con-call highlights: 1) Fire insurance claim (incidence occurred in 1QFY20) of Rs485mn is expected to be received this year 2) Bangladesh sales were NIL with loss of Rs103mn in 1QFY21 3) Entry into PPE business is tactical in nature (sales expectation of Rs50mn per quarter) 4) Have plans to enter into ladies handbag manufacturing 5) Employee cost is expected to fall by 35% in FY21. Full benefit of reduction does not appear in 1QFY21 (cost was flat sequentially) as cost cutting was gradual in nature. 6) Other income was high due to rent waivers (impact of Rs140mn) and receipt of insurance claim of Kerala floods (Rs19mn) 7) Out of 250 EBOs, 100 are expected to be closed.

Exhibit 1: Q1FY21 Result Overview - Consolidated (Rs mn)

Y/e March	Q1FY21	Q1FY20	YoY gr.	Q4FY20	QoQ gr.
Net sales	403	5,642	-92.9%	3,113	-87.0%
Total raw material cost	233	2,797	-91.7%	1,321	-82.4%
<i>As a % of sales</i>	<i>57.7%</i>	<i>49.6%</i>		<i>42.4%</i>	
Gross Profit	171	2,845	-94.0%	1,793	-90.5%
<i>Gross margin</i>	<i>42.3%</i>	<i>50.4%</i>		<i>57.6%</i>	
Employee expenses	387	540	-28.3%	418	-7.3%
<i>As a % of sales</i>	<i>96.1%</i>	<i>9.6%</i>		<i>13.4%</i>	
Other expenses	362	1,054	-65.7%	1,056	-65.8%
<i>As a % of sales</i>	<i>89.6%</i>	<i>18.7%</i>		<i>33.9%</i>	
EBITDA	(578)	1,251	NM	319	NM
<i>EBITDA margin</i>	<i>NM</i>	<i>22.2%</i>		<i>10.2%</i>	
Depreciation	209	192	8.7%	218	-4.2%
EBIT	(787)	1,059	NM	101	NM
<i>EBIT margin</i>	<i>NM</i>	<i>18.8%</i>		<i>3.2%</i>	
Interest cost	65	53	23.9%	51	27.7%
Other income	179	26	590.7%	55	225.3%
PBT	(674)	1,032	NM	105	NM
Exceptional items	-	485	NM	-	NM
Tax expenses	(161)	196	NM	9	NM
<i>Tax rate</i>	<i>NM</i>	<i>19.0%</i>		<i>8.9%</i>	
PAT	(513)	351	NM	95	NM
<i>PAT margin</i>	<i>NM</i>	<i>6.2%</i>		<i>3.1%</i>	
EPS (Rs)	(3.6)	2.5	NM	0.7	NM
Adjusted PAT	(513)	836	NM	95	NM
<i>Adjusted PAT margin</i>	<i>NM</i>	<i>14.8%</i>		<i>3.1%</i>	
Adjusted EPS (Rs)	(3.6)	5.9	NM	0.7	NM

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	1Q'21	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Sales	252	259	389	392	430	513	657	720	-	490	570	1,292	2,320	928	2,506	3,007
PAT	40	27	61	47	40	57	83	160	(103)	83	95	175	340	46	401	481
<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>NM</i>	<i>16.9%</i>	<i>16.7%</i>	<i>13.5%</i>	<i>14.7%</i>	<i>5.0%</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>NM</i>	<i>3.9%</i>	<i>4.0%</i>	<i>7.2%</i>	<i>13.5%</i>	<i>11.5%</i>	<i>15.2%</i>	<i>15.6%</i>
Standalone PAT#	599	310	196	184	860	302	266	(56)	(417)	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>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*	1QFY21
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%	42.3%
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%	NM

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

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	17,183	8,084	16,501	19,263
YoY gr. (%)	(3.7)	(53.0)	104.1	16.7
Cost of Goods Sold	8,059	4,236	7,846	9,035
Gross Profit	9,124	3,848	8,655	10,229
Margin (%)	53.1	47.6	52.5	53.1
Employee Cost	2,105	1,362	2,112	2,408
Other Expenses	4,106	2,884	3,795	4,431
EBITDA	2,913	(397)	2,747	3,390
YoY gr. (%)	29.6	NA	NA	23.4
Margin (%)	17.0	NA	16.7	17.6
Depreciation and Amortization	839	855	891	925
EBIT	2,074	(1,252)	1,856	2,466
Margin (%)	12.1	NA	11.3	12.8
Net Interest	230	404	578	482
Other Income	125	248	165	193
Profit Before Tax	1,484	(1,408)	1,444	2,177
Margin (%)	8.6	NA	8.8	11.3
Total Tax	367	(346)	364	549
Effective tax rate (%)	24.7	24.5	25.2	25.2
Profit after tax	1,117	(1,062)	1,080	1,628
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,602	(1,062)	1,080	1,628
YoY gr. (%)	10.3	NA	NA	50.8
Margin (%)	9.3	NA	6.5	8.5
Extra Ord. Income / (Exp)	(485)	-	-	-
Reported PAT	1,117	(1,062)	1,080	1,628
YoY gr. (%)	(23.1)	NA	NA	50.8
Margin (%)	6.5	NA	6.5	8.5
Other Comprehensive Income	20	14	-	-
Total Comprehensive Income	1,137	(1,049)	1,080	1,628
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	11.3	(7.5)	7.6	11.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	4,332	4,641	5,150	5,659
Tangibles	4,253	4,553	5,053	5,553
Intangibles	79	88	97	106
Acc: Dep / Amortization	693	1,547	2,438	3,363
Tangibles	653	1,490	2,363	3,270
Intangibles	40	57	75	93
Net fixed assets	3,640	3,094	2,712	2,297
Tangibles	3,601	3,063	2,690	2,284
Intangibles	39	31	22	13
Capital Work In Progress	28	28	28	28
Goodwill	-	-	-	-
Non-Current Investments	223	191	253	266
Net Deferred tax assets	67	(64)	28	40
Other Non-Current Assets	87	73	99	116
Current Assets				
Investments	404	404	404	404
Inventories	4,514	2,658	4,521	5,278
Trade receivables	2,674	1,440	2,622	3,061
Cash & Bank Balance	108	5,160	4,331	1,977
Other Current Assets	505	364	413	482
Total Assets	12,447	13,394	15,484	14,031
Equity				
Equity Share Capital	283	283	283	283
Other Equity	5,819	4,558	5,214	6,418
Total Network	6,101	4,840	5,496	6,700
Non-Current Liabilities				
Long Term borrowings	-	3,000	3,000	1,500
Provisions	125	105	116	125
Other non current liabilities	1	1	2	2
Current Liabilities				
ST Debt / Current of LT Debt	322	1,500	1,500	-
Trade payables	3,493	1,791	3,059	3,317
Other current liabilities	571	343	489	561
Total Equity & Liabilities	12,447	13,394	15,484	14,031

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,484	(1,408)	1,444	2,177
Add. Depreciation	839	855	891	925
Add. Interest	230	404	578	482
Less Financial Other Income	125	248	165	193
Add. Other	233	-	-	-
Op. profit before WC changes	2,785	(150)	2,912	3,583
Net Changes-WC	539	1,395	(1,773)	(960)
Direct tax	(404)	578	(456)	(560)
Net cash from Op. activities	2,921	1,823	683	2,063
Capital expenditures	(443)	(300)	(500)	(500)
Interest / Dividend Income	2	-	-	-
Others	(410)	(33)	(10)	(12)
Net Cash from Invst. activities	(851)	(333)	(510)	(512)
Issue of share cap. / premium	-	-	-	-
Debt changes	(540)	4,178	-	(3,000)
Dividend paid	(861)	(212)	(424)	(424)
Interest paid	(27)	(404)	(578)	(482)
Others	(682)	-	-	-
Net cash from Fin. activities	(2,109)	3,563	(1,001)	(3,906)
Net change in cash	(40)	5,052	(829)	(2,355)
Free Cash Flow	2,468	1,523	183	1,563

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.3	(7.5)	7.6	11.5
CEPS	17.3	(1.5)	13.9	18.1
BVPS	43.2	34.3	38.9	47.4
FCF	17.5	10.8	1.3	11.1
DPS	3.2	1.5	3.0	3.0
Return Ratio(%)				
RoCE	32.3	NA	18.6	30.1
ROIC	23.4	NA	17.7	24.2
RoE	18.6	NA	19.6	24.3
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.2)	0.0	(0.1)
Net Working Capital (Days)	78	104	90	95
Valuation(x)				
PER	23.1	NA	34.2	22.7
P/B	6.1	7.6	6.7	5.5
P/CEPS	15.1	NA	18.8	14.5
EV/EBITDA	12.6	NA	13.4	10.6
EV/Sales	2.1	4.4	2.2	1.9
Dividend Yield (%)	1.2	0.6	1.1	1.1

Source: Company Data, PL Research

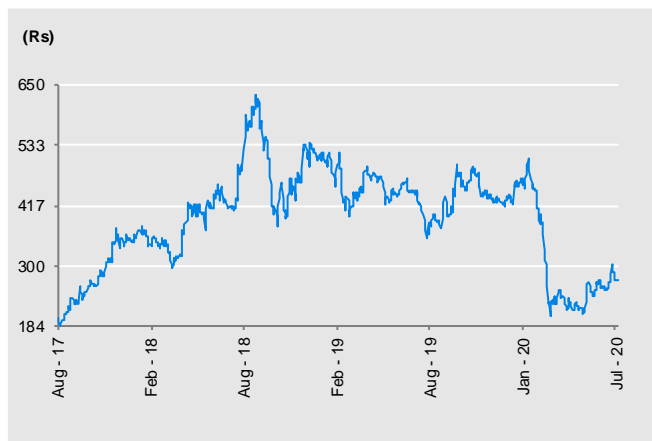
Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	4,123	4,324	3,113	403
YoY gr. (%)	2.6	0.5	(28.4)	(92.9)
Raw Material Expenses	1,926	2,018	1,321	233
Gross Profit	2,196	2,306	1,793	171
Margin (%)	53.3	53.3	57.6	42.3
EBITDA	662	680	319	(578)
YoY gr. (%)	29.7	80.3	(19.4)	NA
Margin (%)	16.1	15.7	10.2	NA
Depreciation / Depletion	212	217	218	209
EBIT	451	463	101	(787)
Margin (%)	10.9	10.7	3.2	NA
Net Interest	70	56	51	65
Other Income	27	18	55	179
Profit before Tax	408	425	105	(674)
Margin (%)	9.9	9.8	3.4	NA
Total Tax	79	83	9	NA
Effective tax rate (%)	19.3	19.5	8.9	23.8
Profit after Tax	329	342	95	(513)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	329	342	95	(513)
YoY gr. (%)	0.3	43.6	(62.3)	NA
Margin (%)	8.0	7.9	3.1	NA
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	329	342	95	(513)
YoY gr. (%)	0.3	43.6	(62.3)	NA
Margin (%)	8.0	7.9	3.1	NA
Other Comprehensive Income	6	(2)	20	14
Total Comprehensive Income	336	340	116	(500)
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	2.3	2.4	0.7	(3.6)

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Hold	255	258
2	27-May-20	Hold	229	215
3	16-Apr-20	Hold	334	241
4	25-Feb-20	Hold	472	451
5	12-Feb-20	Hold	472	486
6	03-Jan-20	BUY	501	440
7	07-Nov-19	BUY	530	454
8	03-Oct-19	BUY	540	465

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	157	133
3	Indian Railway Catering and Tourism Corporation	Accumulate	1,495	1,401
4	Inox Leisure	Accumulate	262	235
5	Music Broadcast	Hold	18	16
6	Navneet Education	Accumulate	89	78
7	PVR	Accumulate	1,107	1,073
8	S Chand and Company	Accumulate	57	51
9	V.I.P. Industries	Hold	255	258

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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