

Restructured supply chain to enable faster recovery

Luggage being a proxy play to the travel & tourism industry was among the worst impacted sectors owing to pandemic in FY21. Gradual reopening of economy and higher push towards domestic travel had perked up demand for luggage during January-March 2021. However, reimposition of lockdown restrictions derailed the revenue recovery. VIP reported revenue growth of ~4% QoQ (down 22% YoY to ₹ 243.0 crore in Q4FY21). Gross margins expanded 530 bps QoQ to 43.8% but still continue to be significantly below pre-Covid levels (52-53%). This is mainly due to sale of lower margin products (value segment), higher discounting to liquidate existing inventory and significant increase in RM prices. However, the company was able to materially reduce operating overheads by 30% (employee & other expenses down 39% & 8% YoY, respectively). This led VIP to report positive EBITDA of ₹ 3.2 crore in Q4FY21. Other income was at ₹ 16.3 crore (vs. ₹ 5.5 crore in Q4FY20), which includes profit on sale of land and building (₹ 8.9 crore).

Key conference call takeaways

i) On the sourcing front, Bangladesh continues to gain higher significance for the company. It has shifted majority of products sourced from China to sourcing from its Bangladesh facility, ii) the company has shut around 100 EBOs in FY21 and is expected to mostly continue with remaining EBOs, iii) VIP has again initiated talks with landlords for rent waiver for the lockdown duration during Q1FY22. The talks have been conducive with positive response from landlords, iv) the management indicated that it was well prepared to meet any pent up demand while its own manufacturing capabilities will provide it sufficient headroom as and when demand picks up, v) VIP's revenue share from e-commerce has gone up to 17% in FY21. Catering to e-commerce, the company has been able to cover gaps in its product portfolio, vi) VIP has lost market share in FY21 and regaining market share is its main agenda as and when the demand situation normalises, vii) on the geographical demand trend, the management indicated that tier II, III cities have recovered faster than metros and major cities.

Valuation & Outlook

The company has implemented close to ~ ₹ 170 crore fixed cost savings in FY21 (overall opex down 51% YoY in FY21). VIP believes ~50% (₹ 80-85 crore) would be sustainable in FY22E. Given the near term headwinds and Q1 being critical for VIP, we reduce our revenue estimates for FY22E. We broadly maintain our estimates for FY23E as we expect improved traction in the domestic travel industry from H2FY22 onwards. While revenue recovery may take longer, structural changes in fixed overheads will lead to faster recovery in profitability terms. The company is well placed on the liquidity position as it continues to be net cash positive. Given VIP's healthy balance sheet and strong manufacturing capabilities in Bangladesh (soft luggage), we expect it to be able to effectively manage in the challenging environment. We maintain **BUY** rating on the stock with a revised target price of ₹ 420 (35x FY23E EPS, earlier TP: ₹ 370).



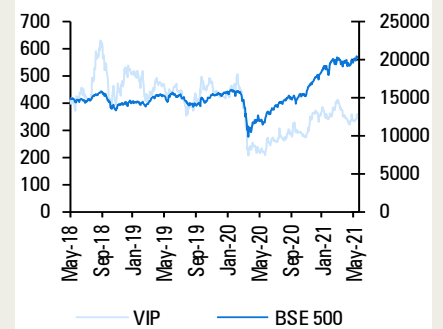
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	5,143.3
Total Debt (FY21) (₹ crore)	153.7
Cash (FY21) (₹ crore)	90.5
EV (₹ crore)	5,206.5
52 Week H / L	421 / 203
Equity Capital (₹ crore)	28.3
Face Value (₹)	2.0

Key risks to call

- Extended lockdown can result in lower level of travel, marriages and continued closure of schools/colleges, which can result in lower-than-expected sales
- Inability to pass on significant increase in raw material price (crude oil based products) can negatively impact margins

Price Performance



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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1,784.7	1,718.3	618.6	1,162.9	1,758.4	0.8%
EBITDA	224.7	291.3	-65.3	136.9	322.9	3.5%
Net Profit	145.3	111.7	-97.5	34.7	170.3	15.1%
P/E (x)	35.4	46.0	-52.8	148.1	30.2	
EV/Sales (x)	2.9	3.0	8.2	4.3	2.9	
EV/EBITDA (x)	23.2	17.6	-77.6	36.8	15.5	
RoCE (%)	32.4	34.2	-14.1	11.7	35.3	
RoE (%)	25.0	18.3	-18.9	6.4	25.8	

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

Financial summary

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	1,718.3	618.6	1,162.9	1,758.4
Growth (%)	(3.7)	(64.0)	88.0	51.2
Total Raw Material Cost	805.9	366.2	616.3	844.0
Gross Margins (%)	53.1	40.8	47.0	52.0
Employee Expenses	210.5	137.6	157.0	193.4
Other Expenses	410.6	180.1	252.7	398.0
Total Operating Expenditure	1,427.0	683.8	1,026.0	1,435.5
EBITDA	291.3	(65.3)	136.9	322.9
EBITDA Margin	17.0	(10.6)	11.8	18.4
Interest	23.0	29.8	23.0	23.2
Depreciation	83.9	77.9	82.5	87.0
Other Income	12.5	48.4	15.0	15.0
Exceptional Expense	(48.5)	-	-	-
PBT	148.4	(124.6)	46.4	227.7
Total Tax	36.7	(27.1)	11.7	57.4
Profit After Tax	111.7	(97.5)	34.7	170.3

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	111.7	-97.5	34.7	170.3
Add: Depreciation	83.9	77.9	82.5	87.0
Net Increase in Current Assets	113.0	277.8	-63.8	-186.6
Net Increase in Current Liabilities	-39.5	-140.2	35.4	101.4
Others	0.0	-70.0	0.0	0.0
CF from operating activities	269.1	48.0	88.8	172.2
(Inc)/dec in Investments	-40.1	-100.1	136.7	0.0
(Inc)/dec in Fixed Assets	-41.6	19.6	-24.9	-40.0
Others	-221.1	12.8	34.2	0.0
CF from investing activities	-302.8	-67.7	146.0	-40.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-54.0	121.5	-103.7	0.0
Dividend Paid	-83.0	4.6	-10.4	-51.1
Others	167.2	-26.7	-59.0	-60.5
CF from financing activities	30.2	99.4	-173.1	-111.6
Net Cash flow	-3.5	79.7	61.7	20.7
Opening Cash	14.2	10.8	90.5	152.2
Closing Cash	10.8	90.5	152.2	172.9

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	28.3	28.3	28.3	28.3
Reserve and Surplus	581.9	488.9	513.2	632.5
Total Shareholders funds	610.1	517.2	541.5	660.7
Total Debt	32.2	153.7	50.0	50.0
Non Current Liabilities	240.9	200.8	200.4	200.4
Source of Funds	883.2	871.7	791.9	911.2
Gross block	197.8	181.1	206.1	246.1
Less: Accum depreciation	65.3	86.3	110.2	136.8
Net Fixed Assets	132.5	94.9	96.0	109.4
Capital WIP	2.7	2.0	2.0	2.0
Intangible assets	4.0	2.5	2.4	2.4
Investments	43.1	143.2	6.5	6.5
Inventory	451.4	301.7	325.0	433.6
Cash	10.8	90.5	152.2	172.9
Debtors	267.4	148.5	188.0	265.0
Loans & Advances & Other CA	82.7	73.6	74.6	75.6
Total Current Assets	812.3	614.2	739.7	947.0
Creditors	292.0	154.0	178.4	279.4
Provisions & Other CL	69.5	67.3	78.3	78.8
Total Current Liabilities	361.5	221.3	256.8	358.2
Net Current Assets	450.7	392.9	483.0	588.8
LT L& A, Other Assets	250.2	236.2	202.1	202.1
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	883.2	871.7	791.9	911.1

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	7.9	-6.9	2.5	12.1
Cash EPS	13.8	-1.4	8.3	18.2
BV	43.2	36.6	38.3	46.8
DPS	6.1	0.0	0.7	3.6
Cash Per Share	0.8	6.4	10.8	12.2
Operating Ratios (%)				
EBITDA margins	17.0	-10.6	11.8	18.4
PBT margins	8.6	-20.1	4.0	13.0
Net Profit margins	6.5	-15.8	3.0	9.7
Inventory days	95.9	178.0	102.0	90.0
Debtor days	56.8	87.6	59.0	55.0
Creditor days	62.0	90.9	56.0	58.0
Return Ratios (%)				
RoE	18.3	-18.9	6.4	25.8
RoCE	34.2	-14.1	11.7	35.3
Valuation Ratios (x)				
P/E	46.0	-52.8	148.1	30.2
EV / EBITDA	17.6	-77.6	36.8	15.5
EV / Sales	3.0	8.2	4.3	2.9
Market Cap / Revenues	3.0	8.3	4.4	2.9
Price to Book Value	8.4	9.9	9.5	7.8
Solvency Ratios				
Debt / Equity	0.1	0.3	0.1	0.1
Debt/EBITDA	0.1	-2.4	0.4	0.2
Current Ratio	2.2	2.4	2.3	2.2
Quick Ratio	1.0	1.0	1.0	1.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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