

November 25, 2021

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	726		621	
Sales (Rs. m)	17,835	20,341	17,691	20,070
% Chng.	0.8	1.3		
EBITDA (Rs. m)	3,656	4,333	3,627	4,275
% Chng.	0.8	1.3		
EPS (Rs.)	14.7	18.1	14.6	17.7
% Chng.	0.8	2.3		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	6,186	12,967	17,835	20,341
EBITDA (Rs. m)	(653)	1,984	3,656	4,333
Margin (%)	(10.6)	15.3	20.5	21.3
PAT (Rs. m)	(975)	941	2,081	2,564
EPS (Rs.)	(6.9)	6.7	14.7	18.1
Gr. (%)	(160.8)	(196.5)	121.2	23.2
DPS (Rs.)	-	1.5	3.0	3.0
Yield (%)	-	0.3	0.5	0.5
RoE (%)	(18.5)	16.1	27.5	26.4
RoCE (%)	(21.3)	16.8	37.2	35.2
EV/Sales (x)	13.7	6.6	4.7	4.1
EV/EBITDA (x)	(130.0)	43.1	23.0	19.3
PE (x)	(85.8)	88.9	40.2	32.6
P/BV (x)	16.2	14.1	11.0	8.6

Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.669 / Rs.305
Sensex / Nifty	58,341 / 17,415
Market Cap	Rs.84bn / \$ 1,124m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.459.80m

Shareholding Pattern (%)

Promoter's	50.28
Foreign	4.39
Domestic Institution	23.16
Public & Others	22.17
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.1	63.5	72.0
Relative	15.9	42.0	31.2

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Gearing for a normal sales season

Quick Pointers:

- Price hike of 4.5% has been taken with effect from 15th Nov.
- Capex of ~Rs500mn is lined-up to expand capacity at Nashik & Bangladesh.

Our interaction with management of VIP reveals 1) price hike of 4.5% has been taken from 15th Nov to counter inflationary trends 2) capex plan of ~Rs500mn odd is on the anvil to expand capacity at Bangladesh and Nashik and 3) ocean freight is at abnormally high levels due to scarcity of containers resulting in SKU shortages. However, VIP has tied-up with contract manufacturers to counter this problem temporarily. Anticipating a normal sales season in 1QFY23, inventory stocking is expected in 2HFY22 (out of Rs3.2bn of inventory on BS, FG component is ~60%).

We increase our target P/E multiple to 40x (35x earlier) as 1) Samsonite's Oct-21 sales (acts as a lead indicator for 3Q performance) was just 29% lower than the comparable pre-COVID month (Oct-2019) indicating sharp demand recovery from 2nd wave and 2) long term margin expansion is on the cards as share of own manufacturing is expected to rise to 60% (40% currently) post capacity expansion. We maintain positive bias on VIP and retain BUY as we increase our TP to Rs 726 (Rs621 earlier).

Capacity expansion is on the cards: Capex of ~Rs500mn is on the anvil to expand production capacity at Nashik & Bangladesh. Roughly, Rs150-200mn will be spent at Bangladesh (asset turn of ~10x; high as Soft Luggage (SL) is not capital intensive) while Rs300-350mn will be spent at Nashik (asset turn of 5-6x; low as Hard Luggage (HL) is capital intensive). Expansion should be complete by end of FY22 and production is expected to start from April.

Nashik expansion is towards HL (PP based) while Bangladesh expansion is towards SL (some HL too but very small component). Expansion of PP (Poly-Propylene) based HL capacity at Nashik will enable VIP to launch mass/value products and compete effectively with Safari. Going forward, the aim is to have equal mix of PP and PC (Poly-Carbonate) based products.

Reliance on China to reduce: Reliance on external outsourcing is expected to decline post capacity expansion. At 100% utilization, Bangladesh can generate sales of ~Rs10-12bn. While 80% of RM requirement of Bangladesh is currently met from China, VIP is evaluating alternative source to reduce China dependence.

New store expansion to be on franchise model: All new stores expected to be opened in FY22 will be on franchise model. This would result in negligible rental outgo and improve WC cycle (credit period for goods supplied to EBOs is 7 days).

Valuation & outlook: VIP's 2Q revenue was 20% lower than the comparable pre-COVID quarter signifying it is almost out of pandemic stress. Further, planned capacity expansion is likely to reduce reliance on outsourcing and result in margin expansion. The stock trades at 40x/33x our FY23/FY24 EPS estimates respectively. Retain BUY with a TP of Rs726 (40x FY24 EPS of Rs18.1).

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	6,186	12,967	17,835	20,341
YoY gr. (%)	(63.9)	109.6	37.5	14.1
Cost of Goods Sold	3,662	6,769	8,436	9,519
Gross Profit	2,524	6,198	9,399	10,821
Margin (%)	40.8	47.8	52.7	53.2
Employee Cost	1,376	1,686	2,140	2,380
Other Expenses	1,801	2,529	3,603	4,109
EBITDA	(653)	1,984	3,656	4,333
YoY gr. (%)	NA	NA	84.3	18.5
Margin (%)	NA	15.3	20.5	21.3
Depreciation and Amortization	779	739	838	915
EBIT	(1,432)	1,245	2,818	3,417
Margin (%)	NA	9.6	15.8	16.8
Net Interest	298	259	196	173
Other Income	484	272	161	183
Profit Before Tax	(1,246)	1,258	2,782	3,427
Margin (%)	NA	9.7	15.6	16.9
Total Tax	(271)	317	701	864
Effective tax rate (%)	21.8	25.2	25.2	25.2
Profit after tax	(975)	941	2,081	2,564
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(975)	941	2,081	2,564
YoY gr. (%)	NA	NA	121.2	23.2
Margin (%)	NA	7.3	11.7	12.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(975)	941	2,081	2,564
YoY gr. (%)	NA	NA	121.2	23.2
Margin (%)	NA	7.3	11.7	12.6
Other Comprehensive Income	20	11	-	-
Total Comprehensive Income	(955)	951	2,081	2,564
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	(6.9)	6.7	14.7	18.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	4,821	5,630	5,989	6,358
Tangibles	4,741	5,541	5,891	6,241
Intangibles	81	90	99	118
Acc: Dep / Amortization	1,939	2,679	3,517	4,432
Tangibles	1,881	2,605	3,427	4,324
Intangibles	58	73	90	108
Net fixed assets	2,882	2,952	2,473	1,926
Tangibles	2,860	2,935	2,464	1,917
Intangibles	22	17	9	9
Capital Work In Progress	23	23	23	23
Goodwill	-	-	-	-
Non-Current Investments	188	205	225	256
Net Deferred tax assets	329	1,111	326	494
Other Non-Current Assets	133	158	178	188
Current Assets				
Investments	1,400	700	490	490
Inventories	3,017	3,197	4,398	5,183
Trade receivables	1,485	2,132	2,932	3,511
Cash & Bank Balance	905	961	847	1,524
Other Current Assets	448	519	892	1,119
Total Assets	10,949	12,124	13,025	15,029
Equity				
Equity Share Capital	283	283	283	283
Other Equity	4,889	5,629	7,286	9,426
Total Networkth	5,172	5,911	7,568	9,708
Non-Current Liabilities				
Long Term borrowings	1,611	1,611	1,611	1,611
Provisions	118	130	125	142
Other non current liabilities	1	1	2	2
Current Liabilities				
ST Debt / Current of LT Debt	1,924	1,887	387	387
Trade payables	1,540	1,954	2,541	2,396
Other current liabilities	555	594	745	731
Total Equity & Liabilities	10,949	12,124	13,025	15,029

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	(1,246)	1,258	2,782	3,427
Add. Depreciation	779	739	838	915
Add. Interest	298	259	196	173
Less Financial Other Income	484	272	161	183
Add. Other	(340)	-	-	-
Op. profit before WC changes	(509)	2,256	3,817	4,516
Net Changes-WC	709	(478)	(1,703)	(1,785)
Direct tax	(29)	(1,088)	84	(1,032)
Net cash from Op. activities	170	690	2,197	1,699
Capital expenditures	195	(800)	(350)	(350)
Interest / Dividend Income	23	-	-	-
Others	(973)	674	158	(75)
Net Cash from Inv. activities	(756)	(126)	(192)	(425)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,215	(37)	(1,500)	-
Dividend paid	(4)	(212)	(424)	(424)
Interest paid	(61)	(259)	(196)	(173)
Others	(429)	-	-	-
Net cash from Fin. activities	721	(508)	(2,120)	(597)
Net change in cash	135	56	(114)	677
Free Cash Flow	79	(110)	1,847	1,349

Source: Company Data, PL Research

Key Financial Metrics

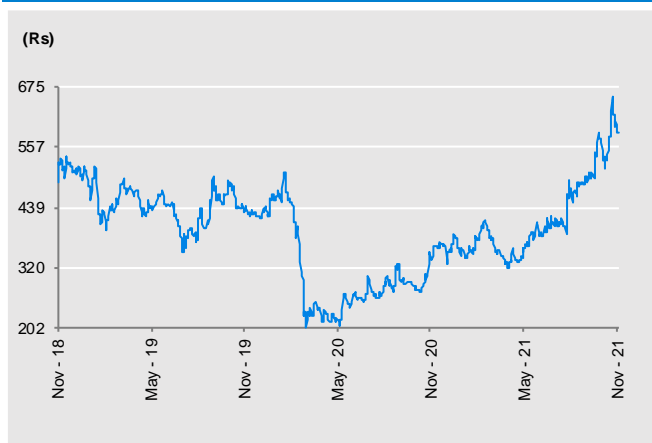
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	(6.9)	6.7	14.7	18.1
CEPS	(1.4)	11.9	20.7	24.6
BVPS	36.6	41.8	53.6	68.7
FCF	0.6	(0.8)	13.1	9.5
DPS	-	1.5	3.0	3.0
Return Ratio(%)				
RoCE	(21.3)	16.8	37.2	35.2
ROIC	(6.0)	16.4	28.1	28.8
RoE	(18.5)	16.1	27.5	26.4
Balance Sheet				
Net Debt : Equity (x)	0.2	0.3	0.1	-
Net Working Capital (Days)	175	95	98	113
Valuation(x)				
PER	NA	88.9	40.2	32.6
P/B	16.2	14.1	11.0	8.6
P/CEPS	NA	49.8	28.6	24.0
EV/EBITDA	NA	43.1	23.0	19.3
EV/Sales	13.7	6.6	4.7	4.1
Dividend Yield (%)	-	0.3	0.5	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	2,326	2,430	2,062	3,301
YoY gr. (%)	(46.0)	(22.0)	411.3	221.4
Raw Material Expenses	1,433	1,367	1,012	1,745
Gross Profit	894	1,063	1,050	1,555
Margin (%)	38.4	43.8	50.9	47.1
EBITDA	81	32	129	418
YoY gr. (%)	(88.1)	(90.0)	NA	NA
Margin (%)	3.5	1.3	6.3	12.7
Depreciation / Depletion	182	180	181	175
EBIT	(101)	(148)	(51)	243
Margin (%)	NA	NA	NA	7.4
Net Interest	82	73	74	65
Other Income	102	163	143	67
Profit before Tax	(80)	(57)	18	246
Margin (%)	NA	NA	0.9	7.4
Total Tax	(10)	(19)	(7)	60
Effective tax rate (%)	12.6	33.9	(36.8)	24.5
Profit after Tax	(70)	(38)	25	185
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(70)	(38)	25	185
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	(3.0)	(1.6)	1.2	5.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(70)	(38)	25	185
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	NA	1.2	5.6
Other Comprehensive Income	12	6	10	1
Total Comprehensive Income	(59)	(31)	35	186
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	(0.5)	(0.3)	0.2	1.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	31-Oct-21	BUY	621	543
2	7-Oct-21	BUY	573	546
3	12-Aug-21	BUY	457	386
4	7-Jul-21	UR	-	418
5	26-May-21	Hold	376	366
6	7-Apr-21	Accumulate	374	342
7	30-Mar-21	Accumulate	376	350
8	5-Feb-21	Accumulate	376	355
9	11-Jan-21	Accumulate	384	378

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	197	189
3	Indian Railway Catering and Tourism Corporation	Hold	779	855
4	Inox Leisure	BUY	490	418
5	Music Broadcast	Hold	24	25
6	Navneet Education	Accumulate	123	107
7	Nazara Technologies	BUY	3,125	2,520
8	PVR	BUY	1,896	1,627
9	S Chand and Company	BUY	147	122
10	V.I.P. Industries	BUY	621	543
11	Zee Entertainment Enterprises	BUY	399	314

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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