

Sput in gross margins a key positive surprise...

About the stock: VIP Industries is one of Asia's leading seller/manufacturer of various type of luggage's, backpacks and handbags. VIP has a range of leading brands, positioned across entire price range, catering to value (Aristocrat) mid (VIP, Skybags) and premium (Carlton, Caprese) price points.

- Market leader in the organised luggage space (oligopoly market)
- VIP has, over the years, maintained balance sheet prudence with stringent working capital policy, virtually debt free status and healthy RoCE: 30% +

Q1FY22 Results: Second wave significantly disrupted a seasonally strong quarter for VIP. The silver lining was reverting to its ~50% gross margins levels.

- On a significantly low base, revenue for Q1FY22 grew 411% YoY to ₹ 206.2 crore, with revenue recovery rate coming in at ~37% (Q4FY21: 56%)
- Gross margins came in healthy at 51% vs. 42% in Q1FY21. Lower discounting, better product mix and higher proportion of in-house manufacturing goods (~90%) aided margins
- Posted a marginal net profit of ₹ 1.9 crore after four consecutive quarters of losses

What should investors do? VIP's share price has grown by ~3.5x over the past five years (from ~₹ 127 in August 2016 to ~₹ 450 levels in August 2021).

- We maintain **BUY** recommendation on the stock

Target Price and Valuation: We value VIP at ₹ 525 i.e. 42x FY23E EPS (earlier ₹ 420)

Key triggers for future price performance:

- Strong manufacturing capabilities in Bangladesh (for soft luggage) gives VIP an edge over its peers who depend mainly on imports
- Given the company's healthy balance sheet (net debt free), we expect VIP to be able to effectively manage through the challenging environment
- Structural changes in fixed overheads (~50% sustainable in nature) will lead to faster recovery in profitability terms
- Luggage being the proxy to travel and tourism industry is well placed to benefit from recovery post relaxation on travel restrictions

Alternate Stock Idea: Apart from VIP, we also like Trent.

- Inherent strength of brands (Westside, Zudio, Zara) and proven business model position Trent as a key beneficiary of economy unlock theme
- BUY with a target price of ₹ 1100/share



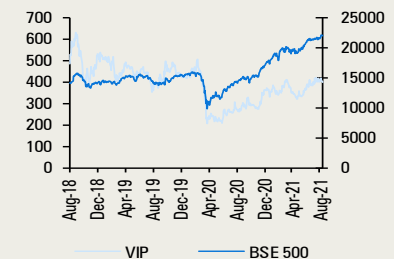
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	6,358.5
Total Debt (FY21) (₹ crore)	153.7
Cash (FY21) (₹ crore)	90.5
EV (₹ crore)	6,421.7
52 Week H / L	459 / 258
Equity Capital (₹ crore)	28.3
Face Value (₹)	2.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	53.5	53.5	53.5	53.5	53.5
FII	4.1	2.5	3.0	3.0	3.0
DII	13.4	14.7	15.6	16.7	20.5
Others	29.0	29.3	27.9	26.8	23.1

Price Chart



Recent event & key risks

- New products launched in mass segment
- **Key Risk:** (i) inability to pass on higher RM costs (ii) Extended restrictions on trade can lower sales

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Key Financial Summary

₹ crore	FY19	FY20	FY21	5 Year CAGR (FY15-FY20)	FY22E	FY23E	3 Year CAGR (FY20-FY23E)
Net Sales	1,784.7	1,718.3	618.6	10.0%	1,162.9	1,758.4	0.8%
EBITDA	224.7	291.3	-65.3	30.0%	145.0	331.7	4.4%
Net Profit	145.3	111.7	-97.5	19.0%	48.3	176.9	16.6%
P/E (x)	43.8	56.9	-65.2		131.7	35.9	
EV/Sales (x)	3.6	3.7	10.2		5.4	3.5	
EV/EBITDA (x)	28.6	21.8	-96.2		43.0	18.7	
RoCE (%)	32.4	34.2	-14.1		14.6	35.8	
RoE (%)	25.0	18.3	-18.9		8.8	26.2	

Key conference call highlights

- On demand trends, the demand revival has been rapid compared to the last corresponding quarter and the company has performed better than its peers in terms of revenue recovery due to better supply chain management and inventory related strategies. The management indicated they were able to capture demand in specific regions that were not impacted initially by the second wave of pandemic
- Among distribution channels, e-commerce has been the best performing channel for the company and the company expects the momentum to continue in future
- The company rejigged its product portfolio towards mass segment and launched several new products at lower price points in the category to capture the demand. VIP is planning to further strengthen its offering in the value segment to benefit from the current trend. From a long term perspective, the company would continue to invest in products for mass premium and premium segments as and when they pick up post normalisation of the demand scenario
- The company witnessed sharp QoQ recovery in gross margins owing to lower discounting, price increases across product categories to cover raw material inflation. Also, increased proportion of in-house manufacturing, both from India and Bangladesh aided improvement in gross margins. The management indicated that gross margin could be maintained at 50-51% on a sustainable basis
- The company's in-house manufacturing share is currently at ~90% and VIP is not looking back to significant imports from China except for certain specialised products
- On the product portfolio front, soft luggage constitutes around 60% of revenues while hard luggage has a share of around 40%
- The management indicated that its 'Caprese' brand had a decent performance in Q1FY22 as the company had sufficient stock to meet demand. The company has shifted focus to make Caprese a more predominant e-commerce brand. The company is also planning to enter the mass segment under the Caprese brand by leveraging its low cost manufacturing from Bangladesh
- On the export front, VIP believes the segment has strong potential and is working on certain initiatives to have a better presence in the export segment

Financial Summary

Exhibit 1: Profit and loss statement				
₹ crore				
(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	588.4	844.0
Gross Margins (%)	53.1	40.8	49.4	52.0
Employee Expenses	210.5	137.6	157.0	189.9
Other Expenses	410.6	180.1	272.5	392.7
Total Operating Expenditure	1,427.0	683.8	1,017.9	1,426.7
EBITDA	291.3	(65.3)	145.0	331.7
EBITDA Margin	17.0	(10.6)	12.5	18.9
Interest	23.0	29.8	23.0	23.2
Depreciation	83.9	77.9	82.5	87.0
Other Income	12.5	48.4	25.0	15.0
Exceptional Expense	(48.5)	-	-	-
PBT	148.4	(124.6)	64.6	236.5
Total Tax	36.7	(27.1)	16.3	59.6
Profit After Tax	111.7	(97.5)	48.3	176.9

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	111.7	-97.5	48.3	176.9
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	102.4	178.8
(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	-14.5	-53.1
Others	167.2	-26.7	-59.0	-60.5
CF from financing activities	30.2	99.4	-177.2	-113.5
Net Cash flow	-3.5	79.7	71.2	25.3
Opening Cash	14.2	10.8	90.5	161.7
Closing Cash	10.8	90.5	161.7	187.0

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	28.3	28.3	28.3	28.3
Reserve and Surplus	581.9	488.9	522.7	646.6
Total Shareholders funds	610.1	517.2	551.0	674.8
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	801.4	925.3
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	161.7	187.0
Debtors	267.4	148.5	188.0	265.0
Loans & Advances & Other C/	82.7	73.6	74.6	75.6
Total Current Assets	812.3	614.2	749.2	961.1
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	492.5	602.9
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	801.4	925.2

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	7.9	-6.9	3.4	12.5
Cash EPS	13.8	-1.4	9.3	18.7
BV	43.2	36.6	39.0	47.8
DPS	6.1	0.0	1.0	3.8
Cash Per Share	0.8	6.4	11.4	13.2
Operating Ratios (%)				
EBITDA margins	17.0	-10.6	12.5	18.9
PBT margins	8.6	-20.1	5.6	13.5
Net Profit margins	6.5	-15.8	4.2	10.1
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	8.8	26.2
RoCE	34.2	-14.1	14.6	35.8
Valuation Ratios (x)				
P/E	56.9	-65.2	131.7	35.9
EV / EBITDA	21.8	-96.2	43.0	18.7
EV / Sales	3.7	10.2	5.4	3.5
Market Cap / Revenues	3.7	10.3	5.5	3.6
Price to Book Value	10.4	12.3	11.5	9.4
Solvency Ratios				
Debt / Equity	0.1	0.3	0.1	0.1
Debt/EBITDA	0.1	-2.4	0.3	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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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