

February 2, 2022

Q3FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	769		726	
Sales (Rs. m)	17,995	20,521	17,835	20,341
% Chng.	0.9	0.9		
EBITDA (Rs. m)	3,689	4,371	3,656	4,333
% Chng.	0.9	0.9		
EPS (Rs.)	15.1	18.3	14.7	18.1
% Chng.	2.2	0.9		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	6,186	13,382	17,995	20,521
EBITDA (Rs. m)	(653)	1,699	3,689	4,371
Margin (%)	(10.6)	12.7	20.5	21.3
PAT (Rs. m)	(975)	855	2,127	2,586
EPS (Rs.)	(6.9)	6.0	15.1	18.3
Gr. (%)	NA	NA	148.8	21.6
DPS (Rs.)	-	1.5	3.0	3.0
Yield (%)	-	0.2	0.4	0.4
RoE (%)	NA	15.0	28.2	26.7
RoCE (%)	NA	13.5	38.2	35.5
EV/Sales (x)	15.7	7.3	5.4	4.7
EV/EBITDA (x)	NA	57.5	26.1	22.0
PE (x)	NA	111.8	44.9	37.0
P/BV (x)	18.5	16.4	12.7	9.9

Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.688 / Rs.305
Sensex / Nifty	59,558 / 17,780
Market Cap	Rs.96bn / \$ 1,279m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.296.35m

Shareholding Pattern (%)

Promoter's	50.27
Foreign	5.84
Domestic Institution	23.60
Public & Others	20.29
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	25.6	62.7	92.4
Relative	22.8	44.7	60.9

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Strong recovery with PAT at pre-COVID levels

Quick Pointers:

- Revenue is 8% lower than comparable pre-COVID quarter signifying that recovery momentum is strong.
- GM expanded 180bps QoQ to 48.9% due to price hike of 4% odd and favorable product mix.

VIP's PAT was 7%/14% above our/street estimates signifying that demand recovery is significantly better than expectations. In fact, PAT was only 2% lower than comparable pre-COVID quarter indicating VIP is almost out of pandemic stress.

We raise our EPS estimates by 5%/2%/1% for FY22/FY23/FY24 respectively to account for better than expected recovery and improved GM performance. VIP has plans to expand own manufacturing capacity (Rs360mn invested so far) which is likely to reduce reliance on external outsourcing. Post expansion, share of own manufacturing is likely to increase to ~65-70% as compared to ~40% earlier. Consequently, share of imports is likely to decline to less than 10% in coming years which will not only eliminate currency volatility but also reduce freight cost resulting in margin expansion. We retain BUY with a revised TP of Rs769 (42x FY24 EPS; 40x earlier) as 1) demand recovery is sharp 2) steps are being taken to arrest market share loss (contribution of Aristocrat, a mass brand, was 41% in 3Q) and 3) long term margin expansion is on the cards.

Recovery momentum is strong: Top-line increased 70.9% YoY/20.4% QoQ to Rs3,973mn as demand momentum sustained in 3QFY22 due to gradual easing of travel restrictions.

GM expands to 48.9%: Gross profit increased 117.7% YoY to Rs1,944mn with a margin of 48.9% versus 47.1%/38.4% in 2QFY22/3QFY21 respectively mainly on account of price hike and favorable product mix.

EBITDA and PAT margin stood at 14.4%/8.4%: EBITDA increased 602.1% YoY to Rs572mn with 14.4% margin. PAT stood at Rs335mn with a margin of 8.4% versus a loss of Rs70mn in 3QFY21.

Con-call highlights: 1) Rs360mn has been invested in capacity expansion 2) Price hike of 4% has been taken as a hedge against RM cost inflation 3) 45 new EBOs have been opened 4) Share of own manufacturing was ~58% in 9MFY22 5) Contribution of imports which was ~50% in FY20 is likely to come down to less than 10% in coming years 6) Inventory levels have gone up by Rs250mn 7) Ad-spends were 2.4% of sales in 3QFY22 but would revert to 5% levels going ahead 8) Employee cost was higher in 3Q due to increments effective from 01 Oct, payment of one time incentives and hiring additional workers at Bangladesh 9) In case of SL, ~70-75% of the production happens in-house 10) Share of Aristocrat, a mass brand, was 41% and it is unlikely to revert back to pre-COVID levels 11) E-com sales contribution was ~13% 12) Backpacks sales is 45% of pre-COVID levels 13) Provision of Rs75mn in 9MFY22 pertains to Big Bazaar (total amount provided so far is ~Rs220mn).

Exhibit 1: Q3FY22 Result Overview - Consolidated (Rs mn)

Y/e March	Q3FY22	Q3FY21	YoY gr.	Q2FY22	QoQ gr.	9MFY22	9MFY21	YoY gr.
Net sales	3,973	2,325	70.9%	3,301	20.4%	9,336	3,756	148.6%
Total raw material cost	2,030	1,433	41.7%	1,745	16.3%	4,787	2,295	108.6%
<i>As a % of sales</i>	<i>51.1%</i>	<i>61.6%</i>		<i>52.9%</i>		<i>51.3%</i>	<i>61.1%</i>	
Gross Profit	1,944	893	117.7%	1,555	25.0%	4,549	1,461	211.4%
<i>Gross margin</i>	<i>48.9%</i>	<i>38.4%</i>		<i>47.1%</i>		<i>48.7%</i>	<i>38.9%</i>	
Employee expenses	499	306	62.8%	443	12.5%	1,331	991	34.2%
<i>As a % of sales</i>	<i>12.6%</i>	<i>13.2%</i>		<i>13.4%</i>		<i>14.3%</i>	<i>26.4%</i>	
Other expenses	873	505	72.9%	694	25.8%	2,100	1,156	81.6%
<i>As a % of sales</i>	<i>22.0%</i>	<i>21.7%</i>		<i>21.0%</i>		<i>22.5%</i>	<i>30.8%</i>	
EBITDA	572	81	602.1%	418	36.7%	1,118	(687)	NM
<i>EBITDA margin</i>	<i>14.4%</i>	<i>3.5%</i>		<i>12.7%</i>		<i>12.0%</i>	<i>NM</i>	
Depreciation	174	182	-4.3%	175	-0.3%	530	600	-11.7%
EBIT	397	(101)	NM	243	63.3%	589	(1,287)	NM
<i>EBIT margin</i>	<i>10.0%</i>	<i>NM</i>		<i>7.4%</i>		<i>6.3%</i>	<i>NM</i>	
Interest cost	54	82	-33.5%	65	-16.6%	193	225	-14.3%
Other income	94	102	-7.9%	67	39.7%	305	323	-5.4%
PBT	437	(80)	NM	246	1	701	(1,189)	NM
Exceptional items	-	-		-		-	-	
Tax expenses	102	(10)	NM	60	70.1%	156	(252)	NM
<i>Tax rate</i>	<i>23.4%</i>	<i>NM</i>		<i>24.5%</i>		<i>22.2%</i>	<i>NM</i>	
PAT	335	(70)	NM	185	1	545	(937)	NM
<i>PAT margin</i>	<i>8.4%</i>	<i>NM</i>		<i>5.6%</i>		<i>5.8%</i>	<i>NM</i>	
EPS (Rs)	2.4	(0.5)	NM	1.3	0.8	3.9	(6.6)	NM
Adjusted PAT	335	(70)	NM	185	80.5%	545	(937)	NM
<i>Adjusted PAT margin</i>	<i>8.4%</i>	<i>NM</i>		<i>5.6%</i>		<i>5.8%</i>	<i>NM</i>	
Adjusted EPS (Rs)	2.4	(0.5)	NM	1.3	80.5%	3.9	(6.6)	NM

Source: Company, PL

Exhibit 2: Sales & profitability profile of Bangladesh operations

Particulars (Rs mn)	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales	430	513	657	720	-	182	270	770	530	770	1,250	1,292	2,320	1,222	3,788	4,356	5,228
PAT	40	57	83	160	(103)	(24)	(10)	80	(4)	(11)	86	175	340	(57)	152	719	863
<i>PAT margin</i>	<i>9.3%</i>	<i>11.1%</i>	<i>12.6%</i>	<i>22.2%</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>10.4%</i>	<i>NM</i>	<i>NM</i>	<i>6.9%</i>	<i>13.5%</i>	<i>14.7%</i>	<i>NM</i>	<i>4.0%</i>	<i>16.5%</i>	<i>16.5%</i>
<i>Bangladesh's sales as % of total sales</i>	<i>7.6%</i>	<i>12.4%</i>	<i>15.3%</i>	<i>23.1%</i>	<i>NM</i>	<i>17.7%</i>	<i>11.6%</i>	<i>31.7%</i>	<i>25.7%</i>	<i>23.3%</i>	<i>31.5%</i>	<i>7.2%</i>	<i>13.5%</i>	<i>19.8%</i>	<i>28.3%</i>	<i>24.2%</i>	<i>25.5%</i>
Standalone PAT#	860	302	266	(56)	(417)	(223)	(87)	(119)	35	236	276	1,288	887	(845)			
<i>Standalone PAT margin</i>	<i>15.2%</i>	<i>7.3%</i>	<i>6.1%</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>1.7%</i>	<i>7.3%</i>	<i>7.1%</i>	<i>7.2%</i>	<i>5.2%</i>	<i>NM</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	3QFY19	4QFY19	1QFY20*	2QFY20*	3QFY20*	4QFY20*	1QFY21*	2QFY21*	3QFY21*	4QFY21*	1QFY22*	2QFY22*	3QFY22*
Gross margin	47.7%	47.5%	50.4%	53.3%	53.2%	57.6%	42.3%	38.7%	38.4%	43.8%	50.9%	47.1%	48.9%
EBITDA margin	8.8%	9.1%	19.2%	12.2%	11.8%	4.7%	NM	NM	3.5%	1.3%	6.3%	12.7%	14.4%

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

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	6,186	13,382	17,995	20,521
YoY gr. (%)	(63.9)	116.3	34.5	14.0
Cost of Goods Sold	3,662	6,891	8,512	9,604
Gross Profit	2,524	6,490	9,484	10,917
Margin (%)	40.8	48.5	52.7	53.2
Employee Cost	1,376	1,820	2,159	2,401
Other Expenses	1,801	2,971	3,635	4,145
EBITDA	(653)	1,699	3,689	4,371
YoY gr. (%)	NA	NA	117.1	18.5
Margin (%)	NA	12.7	20.5	21.3
Depreciation and Amortization	779	709	810	923
EBIT	(1,432)	990	2,879	3,447
Margin (%)	NA	7.4	16.0	16.8
Net Interest	298	248	198	174
Other Income	484	375	162	185
Profit Before Tax	(1,246)	1,117	2,843	3,458
Margin (%)	NA	8.4	15.8	16.9
Total Tax	(271)	263	717	871
Effective tax rate (%)	21.8	23.5	25.2	25.2
Profit after tax	(975)	855	2,127	2,586
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(975)	855	2,127	2,586
YoY gr. (%)	NA	NA	148.8	21.6
Margin (%)	NA	6.4	11.8	12.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(975)	855	2,127	2,586
YoY gr. (%)	NA	NA	148.8	21.6
Margin (%)	NA	6.4	11.8	12.6
Other Comprehensive Income	20	21	-	-
Total Comprehensive Income	(955)	876	2,127	2,586
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	(6.9)	6.0	15.1	18.3

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	2,649	3,458	4,382
Tangibles	1,881	2,576	3,370	4,275
Intangibles	58	72	89	107
Net fixed assets	2,882	2,982	2,531	1,977
Tangibles	2,860	2,965	2,521	1,966
Intangibles	22	17	10	10
Capital Work In Progress	23	23	23	23
Goodwill	-	-	-	-
Non-Current Investments	188	198	227	258
Net Deferred tax assets	329	1,111	326	730
Other Non-Current Assets	133	160	178	188
Current Assets				
Investments	1,400	700	490	490
Inventories	3,017	3,300	4,437	5,172
Trade receivables	1,485	2,200	2,958	3,486
Cash & Bank Balance	905	726	710	1,008
Other Current Assets	448	535	900	1,231
Total Assets	10,949	12,105	13,025	14,881
Equity				
Equity Share Capital	283	283	283	283
Other Equity	4,889	5,553	7,256	9,419
Total Networkth	5,172	5,836	7,539	9,701
Non-Current Liabilities				
Long Term borrowings	1,611	1,611	1,611	1,611
Provisions	118	107	126	144
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	2,016	2,564	2,249
Other current liabilities	555	610	751	737
Total Equity & Liabilities	10,949	12,105	13,025	14,881

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	(1,246)	1,117	2,843	3,458
Add. Depreciation	779	709	810	923
Add. Interest	298	248	198	174
Less Financial Other Income	484	375	162	185
Add. Other	(340)	-	-	-
Op. profit before WC changes	(509)	2,074	3,851	4,556
Net Changes-WC	709	(606)	(1,623)	(1,958)
Direct tax	(29)	(1,023)	68	(1,275)
Net cash from Op. activities	170	445	2,297	1,322
Capital expenditures	195	(800)	(350)	(350)
Interest / Dividend Income	23	-	-	-
Others	(973)	672	160	(75)
Net Cash from Inv. activities	(756)	(128)	(190)	(425)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,215	(37)	(1,500)	-
Dividend paid	(4)	(212)	(424)	(424)
Interest paid	(61)	(248)	(198)	(174)
Others	(429)	-	-	-
Net cash from Fin. activities	721	(497)	(2,122)	(598)
Net change in cash	135	(179)	(16)	298
Free Cash Flow	79	(355)	1,947	972

Source: Company Data, PL Research

Key Financial Metrics

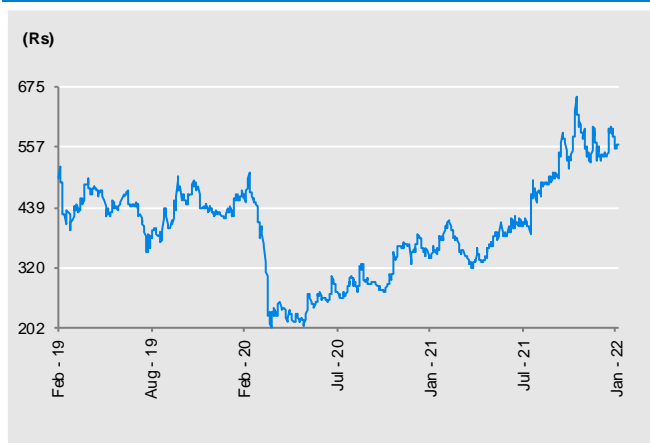
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	(6.9)	6.0	15.1	18.3
CEPS	(1.4)	11.1	20.8	24.8
BVPS	36.6	41.3	53.4	68.7
FCF	0.6	(2.5)	13.8	6.9
DPS	-	1.5	3.0	3.0
Return Ratio(%)				
RoCE	(21.3)	13.5	38.2	35.5
ROIC	(6.0)	14.0	28.3	29.4
RoE	(18.5)	15.0	28.2	26.7
Balance Sheet				
Net Debt : Equity (x)	0.2	0.4	0.1	0.1
Net Working Capital (Days)	175	95	98	114
Valuation(x)				
PER	(98.1)	111.8	44.9	37.0
P/B	18.5	16.4	12.7	9.9
P/CEPS	(489.0)	61.1	32.6	27.2
EV/EBITDA	(148.3)	57.5	26.1	22.0
EV/Sales	15.7	7.3	5.4	4.7
Dividend Yield (%)	-	0.2	0.4	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	2,430	2,062	3,301	3,973
YoY gr. (%)	(22.0)	411.3	221.4	70.9
Raw Material Expenses	1,367	1,012	1,745	2,030
Gross Profit	1,063	1,050	1,555	1,944
Margin (%)	43.8	50.9	47.1	48.9
EBITDA	32	129	418	572
YoY gr. (%)	(90.0)	NA	NA	602.1
Margin (%)	1.3	6.3	12.7	14.4
Depreciation / Depletion	180	181	175	174
EBIT	(148)	(51)	243	397
Margin (%)	NA	NA	7.4	10.0
Net Interest	73	74	65	54
Other Income	163	143	67	94
Profit before Tax	(57)	18	246	437
Margin (%)	NA	0.9	7.4	11.0
Total Tax	(19)	(7)	60	102
Effective tax rate (%)	33.9	(36.8)	24.5	23.4
Profit after Tax	(38)	25	185	335
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(38)	25	185	335
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	1.2	5.6	8.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(38)	25	185	335
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	1.2	5.6	8.4
Other Comprehensive Income	6	10	1	11
Total Comprehensive Income	(31)	35	186	345
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	(0.3)	0.2	1.3	2.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-22	BUY	726	542
2	25-Nov-21	BUY	726	592
3	31-Oct-21	BUY	621	543
4	7-Oct-21	BUY	573	546
5	12-Aug-21	BUY	457	386
6	7-Jul-21	UR	-	418
7	26-May-21	Hold	376	366
8	7-Apr-21	Accumulate	374	342
9	30-Mar-21	Accumulate	376	350
10	5-Feb-21	Accumulate	376	355

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	172
3	Indian Railway Catering and Tourism Corporation	Hold	779	861
4	Inox Leisure	BUY	486	380
5	Music Broadcast	Hold	24	25
6	Navneet Education	BUY	124	86
7	Nazara Technologies	BUY	3,125	2,413
8	PVR	BUY	1,891	1,537
9	S Chand and Company	BUY	147	108
10	V.I.P. Industries	BUY	726	542
11	Zee Entertainment Enterprises	BUY	416	321

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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