

CMP: ₹ 730

Target: ₹ 850 (17%)

Target Period: 12 months

BUY

March 30, 2022

## Set for robust holiday season; managing RM inflation key monitorable...

**About the stock:** VIP Industries is one of Asia's leading seller/manufacturer of various types 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%+

**Company update:** We recently interacted with the management to get an insight on the demand scenario and concerns regarding RM inflation.

- Despite initial hiccups in January (omicron variant), demand for luggage has been decent in Q4FY22 with the recovery rate expected to be 90%+
- Anticipating robust demand during peak travelling season with revenues expected to surpass pre-Covid levels in Q1FY23E
- In terms of input cost inflation, the company has raw material/FG inventory, which would suffice till Q1FY23 and support its gross margins (48-50%). It has also taken a price hike of ~5% in mid-March in certain categories

**What should investors do?** VIP's share price has grown by ~3.7x over the past five years (from ~₹ 200 in March 2017 to ~₹ 730 in March 2022). Luggage being a proxy play to the travel & tourism industry was among the worst impacted sectors owing to the pandemic in FY21/22. With demand greenshoots visible, we expect VIP Industries to be a key beneficiary of increased movement of leisure and business tourist both domestically and internationally.

- We maintain **BUY** recommendation on the stock with a revised target price

**Target Price and Valuation:** We value VIP at ₹ 850 i.e. 50x FY24E EPS

### Key triggers for future price performance:

- Strong manufacturing capabilities in Bangladesh (for soft luggage) and India gives VIP an edge over its peers who depend mainly on imports
- Given its healthy balance sheet (net debt free), we expect VIP to be able to effectively manage in a challenging environment
- We expect the company to reach pre-Covid levels by FY23E and model revenue CAGR of 53% in FY21-24E (on a favourable base). Re-engineered fixed overheads and increased proportion of in-house manufacturing both from India and Bangladesh to translate into better margins, going forward

**Alternate Stock Idea:** Apart from VIP in our retail coverage, 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 ₹ 1330/share



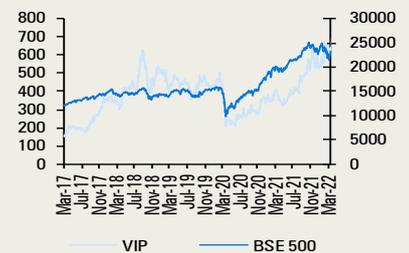
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	10,314.9
Total Debt (FY21) (₹ crore)	153.7
Cash (FY21) (₹ crore)	90.5
EV (₹ crore)	10,378.1
52 Week H / L	764 / 309
Equity Capital (₹ crore)	28.3
Face Value (₹)	2.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	53.5	53.5	53.5	50.3	50.3
FII	3.0	3.0	3.0	4.4	5.8
DII	15.6	16.7	20.5	23.2	23.6
Others	27.9	26.8	23.1	22.2	20.3

### Price Chart



### Recent event & key risks

- Price hike of 5% taken in March 2022
- **Key Risk:**(i) Inability to pass on higher RM costs (ii) Re-imposition of trade restrictions can lower sales

### Research Analyst

Bharat Chhoda  
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa  
cheragh.sidhwa@icicisecurities.com

### Key Financial Summary

₹ crore	FY19	FY20	FY21	5 Year CAGR (FY15-FY20)	FY22E	FY23E	FY24E	4 Year CAGR (FY20-FY24E)
Net Sales	1,784.7	1,718.3	618.6	10.0%	1,320.3	1,897.8	2,226.6	6.7%
EBITDA	224.7	291.3	-65.3	30.0%	166.6	335.6	418.3	9.5%
Net Profit	145.3	111.7	-97.5	19.0%	68.4	181.2	239.2	21.0%
P/E (x)	71.0	92.3	-105.8		150.7	56.9	43.1	
EV/Sales (x)	5.8	6.0	16.6		7.8	5.4	4.6	
EV/EBITDA (x)	46.2	35.3	-156.9		61.5	30.5	24.3	
RoCE (%)	32.4	34.2	-14.1		18.6	35.8	37.9	
RoE (%)	25.0	18.3	-18.9		12.1	26.2	27.8	

## Key takeaways from management call

- April-June is the main quarter for the company owing to it being the peak travelling season. The management is hopeful of a strong Q1FY23 and is expecting to surpass the pre-Covid revenue level owing to a pick-up in travel & tourism and opening of schools, which should provide thrust to its revenues. Also, there are ~ 60 wedding dates in Q1FY23, which would provide further traction to revenues. The company is geared up and has sufficient inventory to meet the enhanced demand
- The management indicated that 65% of the company's raw materials are linked to crude and in FY22 input cost inflation was 26%. The management had earlier taken price hikes of ~ 10% till Q3FY22 (~5% each in May 2021 and November 2021). To mitigate the impact of input cost inflation, the company has taken a further price hike of 5% in mid-March. Also the company has low cost raw material inventory, which would suffice for the next two months and support gross margins. The company expects to maintain gross margins in the range of 48-50%
- The company has been focusing on cost saving and now has a leaner operating cost structure, which would enable it to improve its margins, going ahead. Post stabilisation of commodity inflation, demand environment, VIP has an aspiration to touch EBITDA margins of 20%
- On competitive intensity, the management indicated that the unorganised and smaller players were facing stress owing to high raw material and freight charges, which were making their business unviable. The company's value brand 'Aristocrat' has gained its salience owing to a shift from unorganised to organised and now contributes ~35% of revenues (earlier it was ~ 25%)
- On the product front, the backpacks revenue, which was at 45% of pre Covid level in Q3FY22 has moved up to ~50% of pre-Covid level. The management indicated that consumers had delayed backpack purchase for their kids as schools have opened for a short period this year. However, the company expects backpacks to perform much better from Q1FY23 onwards post regular reopening of schools. The company is planning to launch 350 designs in the sky bags back pack segment
- VIP has significantly reduced its sourcing from China. Currently, China based sourcing is only 8%. The sourcing from China is mainly for its premium brand Carlton. The company plans to maintain overall in-house manufacturing to the tune of 75-80% through its Indian and Bangladesh manufacturing units in FY23E
- On the capex front, the management has not decided on any new capex other than that which was announced earlier (₹ 36 crore) and will take a call on further investment after six months
- On the store addition front, the company is planning to add 150-200 stores on an asset light franchise model. The revenue share of online is between 15% and 20% while the online channel has been performing well even after opening up of retail stores
- On the category growth front, the management indicated that the value segment continued to outperform and expects the trend to continue. 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

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	618.6	1,320.3	1,897.8	2,226.6
Growth (%)	(64.0)	113.4	43.7	17.3
Total Raw Material Cost	366.2	679.9	929.9	1,068.8
Gross Margins (%)	40.8	48.5	51.0	52.0
Employee Expenses	137.6	178.2	205.0	242.7
Other Expenses	180.1	295.5	427.3	496.9
Total Operating Expenditure	683.8	1,153.6	1,562.2	1,808.4
<b>EBITDA</b>	(65.3)	166.6	335.6	418.3
EBITDA Margin	(10.6)	12.6	17.7	18.8
Interest	29.8	23.0	23.2	25.2
Depreciation	77.9	84.2	90.2	95.4
Other Income	48.4	32.0	20.0	22.0
Exceptional Expense	-	-	-	-
PBT	(124.6)	91.5	242.2	319.7
Total Tax	(27.1)	23.1	61.0	80.6
<b>Profit After Tax</b>	(97.5)	68.4	181.2	239.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	-97.5	68.4	181.2	239.2
Add: Depreciation	77.9	84.2	90.2	95.4
Net Increase in Current Assets	277.8	-133.2	-214.2	-126.7
Net Increase in Current Liabilities	-140.2	59.6	99.4	52.7
Others	-70.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>48.0</b>	<b>79.0</b>	<b>156.7</b>	<b>260.5</b>
(Inc)/dec in Investments	-100.1	136.7	-3.0	5.0
(Inc)/dec in Fixed Assets	19.6	-39.9	-35.0	-35.0
Others	12.8	34.2	0.0	0.0
<b>CF from investing activities</b>	<b>-67.7</b>	<b>131.0</b>	<b>-38.0</b>	<b>-30.0</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	121.5	-103.7	0.0	0.0
Dividend Paid	0.0	-20.5	-54.3	-71.7
Others	-22.1	-59.0	-60.5	-64.2
<b>CF from financing activities</b>	<b>99.4</b>	<b>-183.2</b>	<b>-114.8</b>	<b>-136.0</b>
Net Cash flow	79.8	26.7	3.9	94.6
Opening Cash	10.8	90.5	117.2	121.1
<b>Closing Cash</b>	<b>90.5</b>	<b>117.2</b>	<b>121.1</b>	<b>215.7</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	28.3	28.3	28.3	28.3
Reserve and Surplus	488.9	536.8	663.6	831.0
Total Shareholders funds	517.2	565.1	691.9	859.3
Total Debt	153.7	50.0	50.0	50.0
Non Current Liabilities	200.8	200.4	200.4	200.4
<b>Source of Funds</b>	<b>871.7</b>	<b>815.5</b>	<b>942.3</b>	<b>1,109.7</b>
Gross block	173.3	213.3	248.3	283.3
Less: Accum depreciation	78.4	104.0	133.8	164.9
Net Fixed Assets	94.9	109.3	114.5	118.3
Capital WIP	2.0	2.0	2.0	2.0
Intangible assets	2.5	2.4	2.4	2.4
Investments	143.2	6.5	9.5	4.5
Inventory	301.7	369.0	493.9	579.5
Cash	90.5	117.2	121.1	215.7
Debtors	148.5	213.4	301.6	341.6
Loans & Advances & Other C/	73.6	74.6	75.6	76.6
Total Current Assets	614.2	774.2	992.2	1,213.4
Creditors	154.0	202.6	301.6	353.8
Provisions & Other CL	67.3	78.3	78.8	79.2
Total Current Liabilities	221.3	280.9	380.3	433.0
Net Current Assets	392.9	493.3	611.9	780.4
LT L& A, Other Assets	236.2	202.1	202.1	202.1
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>871.7</b>	<b>815.5</b>	<b>942.3</b>	<b>1,109.7</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	-6.9	4.8	12.8	16.9
Cash EPS	-1.4	10.8	19.2	23.7
BV	36.6	40.0	49.0	60.8
DPS	0.0	1.5	3.8	5.1
Cash Per Share	6.4	8.3	8.6	15.3
<b>Operating Ratios (%)</b>				
EBITDA margins	-10.6	12.6	17.7	18.8
PBT margins	-20.1	6.9	12.8	14.4
Net Profit margins	-15.8	5.2	9.5	10.7
Inventory days	178.0	102.0	95.0	95.0
Debtor days	87.6	59.0	58.0	56.0
Creditor days	90.9	56.0	58.0	58.0
<b>Return Ratios (%)</b>				
RoE	-18.9	12.1	26.2	27.8
RoCE	-14.1	18.6	35.8	37.9
<b>Valuation Ratios (x)</b>				
P/E	-105.8	150.7	56.9	43.1
EV / EBITDA	-156.9	61.5	30.5	24.3
EV / Sales	16.6	7.8	5.4	4.6
Market Cap / Revenues	16.7	7.8	5.4	4.6
Price to Book Value	19.9	18.3	14.9	12.0
<b>Solvency Ratios</b>				
Debt / Equity	0.3	0.1	0.1	0.1
Debt/EBITDA	-2.4	0.3	0.1	0.1
Current Ratio	2.4	2.3	2.3	2.3
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%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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