VIP Industries (VIPIND)

ICICI direct Research

CMP: ₹ 655 | Target: ₹ 770 (17%) | Target Period: 12 months | **BUY**

May 18, 2022

Result Update

Geared up for robust holiday season; sustained RM inflation may act as deterrent...

About the stock: VIP Industries is one of Asia's leading sellers/manufacturers of various type of luggage, backpacks and handbags. VIP has a range of leading brands, positioned across the 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%+

Q4FY22 Results: Onset of the quarter (January) was impacted on account of Covid led disruptions, which impacted demand. Revenue recovery was at 86%.

- On a favourable base, revenue grew 46% YoY to ₹ 355.9 crore (10% QOQ decline). The company lost revenue of two to three weeks (~20%)
- Gross margins surprisingly came in at eight quarter high at 53.3% (up 436 bps QoQ, 950 bps YoY) despite pressure on RM. Product mix improvement and increase share of Bangladesh plant aided margins
- Other expenses grew sharply by 16% QoQ owing to higher marketing spends and higher provisioning towards doubtful debts (Future Group). Subsequently, EBITDA margins declined 520 bps QoQ to 9.2%

What should investors do? VIP's share price has grown by ~3x over the past five years (from ~₹ 195 in May 2017 to ~₹ 590 levels in May 2022). Luggage being a proxy play to the travel & tourism industry was among the worst impacted sectors owing to pandemic in FY21/22. With demand green shoots 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 ₹ 770 i.e. 48x FY24E EPS.

Key triggers for future price performance:

- Strong manufacturing capabilities in Bangladesh (for soft luggage) and India give VIP an edge over its peers that depend mainly on imports
- Given the company's 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 in revenue CAGR of 30% in FY22-24E (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 ₹ 1510/share

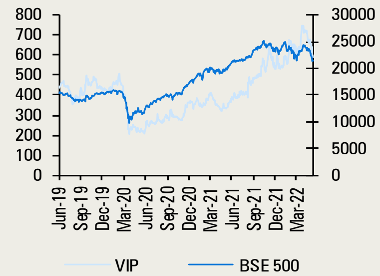
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	8,336.7
Total Debt (FY22) (₹ crore)	122.7
Cash (FY22) (₹ crore)	20.7
EV (₹ crore)	8,438.7
52 Week H / L	774 /335
Equity Capital (₹ crore)	28.3
Face Value (₹)	2.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	53.5	53.5	50.3	50.3	50.4
FII	3.0	3.0	4.4	5.8	8.6
DII	16.7	20.5	23.2	23.6	21.4
Others	26.8	23.1	22.2	20.3	19.6

Price Chart



Key risks

- **Key Risk:** (i) inability to pass on higher RM costs (ii) Re-imposition of trade restrictions can lower sales

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ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Net Sales	1,784.7	1,718.3	618.6	1,289.5	0.2%	1,857.4	2,177.9	30.0%
EBITDA	224.7	291.3	-65.3	144.4	1.8%	319.0	398.1	66.0%
Net Profit	145.3	111.7	-97.5	66.9		171.7	227.4	
P/E (x)	57.4	74.6	-85.5	124.6		48.6	36.7	
EV/Sales (x)	4.7	4.8	13.4	6.5		4.5	3.8	
EV/EBITDA (x)	37.4	28.6	-126.5	58.2		26.3	20.9	
RoCE (%)	32.4	34.2	-14.1	16.2		32.0	36.0	
RoE (%)	25.0	18.3	-18.9	11.9		24.6	26.6	

Source: Company, ICICI Direct Research

Key quarterly takeaways and conference call highlights

- Despite initial hiccups in January (omicron variant), demand for luggage has been decent in Q4FY22 with revenue recovery rate coming in at 86% (Q3FY22: 92%). On the back of improved travel and tourism scenario in India and improving domestic airline passenger traffic, VIP industries witnessed a healthy recovery in FY22 with revenues increasing 2x YoY to ₹ 1289.5 crore. Recovery rate was at ~75% in FY22. While luggage segment has recovered 85%, backpacks reached 42% of pre-Covid levels
- Rising inflation impact on input cost and abnormal high levels of ocean freight continues to remain the major hindrance for the company, going ahead. Around 65% of the company's raw materials are linked to crude. 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
- 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. Other expenses for Q4FY22 were on the higher end on account of increased advertising spend during the quarter (constituted 45% of the total advertisement spend for FY22) and provision made for doubtful debts amounting to ₹ 11 crore (FY22: ₹ 21 crore). Post stabilisation of commodity inflation, demand environment, VIP has an aspiration to touch EBITDA margins of 20%
- Demand recovery was more pronounced towards the mass category than the premium category. 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. Share of Aristocrat brand (value brand) was at 36% vs. 25% pre-Covid levels, while share of VIP brand declined to 21% vs 25%. Green shoots were also visible in other brands (Skybags) with improved availability and new range introductions
- Demand for hard luggage continues to pick up pace in line with the global trends (revenue contribution: 62% in Q3FY22 vs. 56% in Q3FY20). The company's strategy towards producing more of Polypropylene (vs. Polycarbonate) is bearing fruits. After many years the company in FY22 has invested ~ ₹ 36 crore in expanding capacity for hard luggage in India and Bangladesh. Planning to launch new product lines in hard luggage
- Rising inflation on input cost and abnormal high levels of ocean freight continues to remain the major hindrance for the company, going ahead. Sharp inflation was witnessed on China imports for both RM as well as finished goods. Raw material prices in India for plastic are on an uptrend. RM prices have been dearer by ~13% YoY and the company has been able to pass on ~4% through price hikes in mid-November
- Bangladesh facility's contribution has increased significantly over the last two years. It is currently contributing ~45% of revenue in Q4FY22. The company is aspiring to achieve 75-80% of revenue from its India and Bangladesh plant in FY23 (vs. 40% in FY20). The management highlighted that the company had significantly curtailed its dependence of finished goods from China to <10% vs. ~50% in FY20
- On the balance sheet front, inventory increased ~71% YoY in anticipation of a strong holiday season after a gap of two years. Also, higher RM prices have resulted in increase in inventory. Despite negative FCF, the company continues to be in a comfortable liquidity position (D/E: 0.2x)

Q4FY22 conference call highlights:

- On the demand outlook front, the management indicated that demand trends were strong with reopening of offices, schools, colleges and expectations of a strong wedding season. The management highlighted that April 2022 has been the best ever April in terms of revenue. The company is hopeful of revenue momentum to continue in May and June
- The performance of the mid premium VIP and Skybags brands also picked up during the quarter. The company launched several new products in the mid premium segment. VIP resorted to various demand activation and digital campaigns, which enabled good traction for the segment revenues
- The company increased its advertising spend during the quarter. It constituted 45% of total advertisement spend for FY22
- The average selling price is currently at 115% of pre pandemic levels
- On the improvement in gross margin, the management highlighted that improved product mix and enhanced sourcing from its own Bangladesh manufacturing facility aided the gross margin. Also, the management has taken a price hike in November 2021, which has aided in mitigating input cost inflation in Q4FY22. The company has further taken a price hike towards end of March 2022, which it believes is sufficient to mitigate the recent surge in input costs. The company is not planning to further hike prices in the near term barring unforeseen circumstances. For FY23, VIP will strive to improve its gross margins through increased share of own manufacturing
- Export revenues constitute around 3% of revenues and has reached close to pre pandemic level. The management indicated that it was not a focus area at the moment as it wanted to increase its market share in the domestic market
- On a broader business strategy front, the management indicated that it would maintain a balance between market share gain and profitability. The management is aware of the increased competitive intensity from existing brands and new brands in the D2C category and is well prepared to protect and enhance in both physical and e-commerce market. The current revenue share from the online segment is ~16% compared to 6-9% in the pre pandemic period
- On the capex front , the company has a plan to spend around ₹ 30-35 crore in FY23 with 50% budgeted for maintenance capex and rest for enhancing capacity of hard luggage as some hard luggage, which was imported earlier will be manufactured in house
- Volumes for FY22 were at 83% of pre Covid levels. Channel wise revenue share of modern trade was at 30% while CSD contributes ~15% of revenues
- The management indicated that it expects gross margin levels to be in the range of 50-51% with increased share of in-house manufacturing at prevailing inflation. The company is not going for aggressive price hikes in a bid to negate impact on volume and market share
- VIP is prepared with inventory and ramping up the same to meet the demand, which could arise owing to demand revival in Q1FY23. With Q1 being the critical quarter for VIP (~30% of annual revenues) we expect a sharp recovery to enable VIP to surpass pre-Covid levels in FY23 (provided no more restrictions come into play)
- Backpacks category is still not out of the woods as revenue has reached ~45% of pre-Covid sales. Share of its brand Skybags has declined to 32% vs. 37% in pre-Covid levels

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	355.9	243.0	46.5	397.3	-10.4	Lost revenues of 2-3 weeks owing to covid led disruptions. Mass segment (Aristocrat) continues to outperform
Raw Material Expense	166.3	136.7	21.7	203.0	-18.1	
Gross Profit	189.6	106.3	78.3	194.4	-2.4	
Gross Profit Margin	53.3	43.8	951 bps	48.9	436 bps	Gross margins enhancement owing to improved product mix and increased share of Bangladesh operations
Employee exp	55.6	38.5	44.6	49.9	11.5	
Other Exp	101.4	64.7	56.8	87.3	16.1	
EBITDA	32.6	3.2	918.1	57.2	-43.0	
EBITDA Margin (%)	9.2	1.3	784 bps	14.4	-523 bps	Positive impact of higher gross margins was offset by higher other expenses
Depreciation	17.0	18.0	-5.3	17.4	-2.4	
Other Income	5.8	16.3	-64.2	9.4	-38.0	
Interest	5.4	7.3	-26.0	5.4	-0.9	
Exceptional Income	-	-		-		
PBT	16.0	-5.7	-380.4	43.7	-63.3	
Tax Outgo	3.7	-1.9	-288.1	10.2	-64.4	
PAT	12.4	-3.8	LP	33.5	-63.0	

Source: Company, ICICI Direct Research

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	618.6	1,289.5	1,857.4	2,177.9
Growth (%)	(64.0)	108.5	44.0	17.3
Total Raw Material Cost	366.2	645.0	910.1	1,056.3
Gross Margins (%)	40.8	50.0	51.0	51.5
Employee Expenses	137.6	188.7	200.6	233.0
Other Expenses	180.1	311.4	427.6	490.5
Total Operating Expenditure	683.8	1,145.1	1,538.4	1,779.8
EBITDA	(65.3)	144.4	319.0	398.1
EBITDA Margin	(10.6)	11.2	17.2	18.3
Interest	29.8	24.6	25.8	22.6
Depreciation	77.9	70.0	83.7	93.4
Other Income	48.4	36.4	20.0	22.0
Exceptional Expense	-	-	-	-
PBT	(124.6)	86.2	229.5	304.0
Total Tax	(27.1)	19.2	57.8	76.6
Profit After Tax	(97.5)	66.9	171.7	227.4

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	-97.5	66.9	171.7	227.4
Add: Depreciation	77.9	70.0	83.7	93.4
Net Increase in Current Assets	277.8	-332.8	-180.1	-135.2
Net Increase in Current Liabilities	-140.2	149.5	17.4	53.2
Others	-70.0	0.0	0.0	0.0
CF from operating activities	**48.0**	**-46.4**	**92.7**	**238.8**
(Inc)/dec in Investments	-100.1	99.4	34.3	5.0
(Inc)/dec in Fixed Assets	19.6	-31.7	-34.8	-35.0
Others	12.8	34.3	25.7	0.0
CF from investing activities	**-67.7**	**101.9**	**25.2**	**-30.0**
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	121.5	-31.0	-22.7	-50.0
Dividend Paid	0.0	-24.0	-34.3	-68.2
Others	-22.1	-70.2	-55.8	-61.0
CF from financing activities	**99.4**	**-125.3**	**-112.8**	**-179.2**
Net Cash flow	79.8	-69.8	5.0	29.6
Opening Cash	10.8	90.5	20.7	25.7
Closing Cash	**90.5**	**20.7**	**25.7**	**55.3**

Source: Company, ICICI Direct Research

Exhibit 4: 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	531.8	669.1	828.3
Total Shareholders funds	517.2	560.1	697.4	856.6
Total Debt	153.7	122.7	100.0	50.0
Non Current Liabilities	200.8	176.5	176.2	176.2
Source of Funds	**871.7**	**859.3**	**973.6**	**1,082.8**
Gross block	173.3	200.4	235.4	270.4
Less: Accum depreciation	78.4	102.4	130.6	163.1
Net Fixed Assets	94.9	98.0	104.8	107.3
Capital WIP	2.0	7.1	7.1	7.1
Intangible assets	2.5	1.9	1.8	1.8
Investments	143.2	43.8	9.5	4.5
Inventory	301.7	518.4	620.8	716.0
Cash	90.5	20.7	25.7	55.3
Debtors	148.5	218.5	295.2	334.1
Loans & Advances & Other C/	73.6	119.7	120.7	121.7
Total Current Assets	614.2	877.3	1,062.4	1,227.3
Creditors	154.0	282.4	305.3	358.0
Provisions & Other CL	67.3	88.5	82.9	83.4
Total Current Liabilities	221.3	370.8	388.2	441.4
Net Current Assets	392.9	506.5	674.2	785.8
LT L& A, Other Assets	236.2	202.0	176.3	176.3
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**871.7**	**859.3**	**973.6**	**1,082.8**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	-6.9	4.7	12.1	16.1
Cash EPS	-1.4	9.7	18.1	22.7
BV	36.6	39.6	49.4	60.6
DPS	0.0	2.5	2.4	4.8
Cash Per Share	6.4	1.5	1.8	3.9
Operating Ratios (%)				
EBITDA margins	-10.6	11.2	17.2	18.3
PBT margins	-20.1	6.7	12.4	14.0
Net Profit margins	-15.8	5.2	9.2	10.4
Inventory days	178.0	146.7	122.0	120.0
Debtor days	87.6	61.8	58.0	56.0
Creditor days	90.9	79.9	60.0	60.0
Return Ratios (%)				
RoE	-18.9	11.9	24.6	26.6
RoCE	-14.1	16.2	32.0	36.0
Valuation Ratios (x)				
P/E	-85.5	124.6	48.6	36.7
EV / EBITDA	-126.5	58.2	26.3	20.9
EV / Sales	13.4	6.5	4.5	3.8
Market Cap / Revenues	13.5	6.5	4.5	3.8
Price to Book Value	16.1	14.9	12.0	9.7
Solvency Ratios				
Debt / Equity	0.3	0.2	0.1	0.1
Debt/EBITDA	-2.4	0.8	0.3	0.1
Current Ratio	2.4	2.3	2.7	2.7
Quick Ratio	1.0	0.9	1.1	1.0

Source: Company, ICICI Direct Research

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Sell: <-15%

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