

July 13, 2022

## Annual Report Analysis

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	817		817	
Sales (Rs. m)	18,444	21,116	18,444	21,116
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,541	4,371	3,541	4,371
% Chng.	-	-	-	-
EPS (Rs.)	14.1	18.1	14.1	18.1
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	6,186	12,895	18,444	21,116
EBITDA (Rs. m)	(653)	1,444	3,541	4,371
Margin (%)	NA	11.2	19.2	20.7
PAT (Rs. m)	(975)	669	2,000	2,567
EPS (Rs.)	(6.9)	4.7	14.1	18.1
Gr. (%)	NA	NA	198.9	28.3
DPS (Rs.)	-	-	3.0	3.0
Yield (%)	-	-	0.5	0.5
RoE (%)	NA	12.4	31.3	31.1
RoCE (%)	NA	8.6	31.0	34.2
EV/Sales (x)	14.2	6.9	4.8	4.2
EV/EBITDA (x)	NA	61.8	24.9	20.1
PE (x)	NA	129.7	43.4	33.8
P/BV (x)	16.8	15.5	12.1	9.3

### Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.775 / Rs.374
Sensex / Nifty	53,887 / 16,058
Market Cap	Rs.87bn/ \$ 1,091m
Shares Outstanding	142m
3M Avg. Daily Value	Rs.225.35m

### Shareholding Pattern (%)

Promoter's	50.39
Foreign	8.63
Domestic Institution	21.36
Public & Others	19.62
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	14.6	3.7	50.3
Relative	15.5	17.7	46.1

Jinesh Joshi

jineshjoshi@plindia.com | 91-22-66322238

Shweta Shekhawat

shwetashkhawat@plindia.com | 91-22-66322256

## Disclosures improve; traction to be good in FY23

VIP's FY22 annual report highlights plans to 1) maintain in-house manufacturing share at 75-80% 2) open 120-150 EBOs and 3) incur capex of Rs648mn in FY23E. Additionally, finished goods (FG) and stock-in-trade inventory in FY22 is similar to pre-COVID levels (refer to exhibit 1) indicating a strong 1Q, which is seasonally the best quarter for luggage companies. In terms of new launches, the performance was noteworthy with introduction of 59/43 new products in premium/value segment respectively. Also, opportunity from exports (~3% of revenue in FY22) can turn out to be substantial, as most countries are looking to de-risk their supply chain from China post-pandemic. However, one of the major highlight was meaningful improvement in disclosure levels (refer to exhibit 2 and tables/charts on page 4 for more details). Overall, our EPS estimates are broadly intact, but we re-align our capex assumptions and maintain 'BUY' on the stock with a TP of Rs817 (45x FY24 EPS).

### Share of in-house manufacturing to remain at ~75-80% level in FY23E:

Contribution of in-house manufacturing to overall product mix has increased from 53% in FY20 to 85% in FY22. **Overall share will likely remain in the range of 75-80% in FY23E.** Rising share of in-house manufacturing vis-à-vis outsourcing is expected to structurally elevate GM profile as 1) manufacturing profit will now accrue within the company in addition to trading profit and 2) freight cost & currency volatility will decline amid reduced dependency on China.

### Plans to open 120-150 EBOs in FY23E:

VIP opened 32 EBOs in FY22 and **plans to open 120-150 EBOs on an asset light franchise model in FY23E.** Total EBO count was 376 as of FY22 and is expected to surpass 500 mark in FY23E. Strategy to expand via franchise route is likely to result in NIL fixed rental commitments, which helps during downturn.

### Finished goods and stock-in-trade inventory at pre-COVID levels:

Finished goods & stock-in-trade inventory in FY22 is similar to pre-COVID levels. Sufficient stocking as at end of FY22 is an indication of strong 1Q, which is seasonally the best quarter for luggage companies. Consequently, we expect VIP's top-line to breach the pre-COVID base in 1QFY23.

### Exhibit 1: FG & stock-in-trade inventory at pre-COVID levels

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22
Finished goods	447.0	787.5	1,064.6	687.4	2,024.0
Stock-in-trade	1,711.5	2,516.1	1,862.2	895.5	900.0
<b>Sub-total (a+b)</b>	<b>2,158.5</b>	<b>3,303.6</b>	<b>2,926.8</b>	<b>1,582.9</b>	<b>2,924.0</b>

Source: Company, PL

**Capex of ~Rs648mn lined up for FY23E:** As of FY22, VIP has HL capacity of 5.1mn units and SL capacity of 7.2mn units. **For FY23E, capex of Rs648mn has been ear-marked**, of which ~Rs33mn will be utilized to expand capacity in India & Bangladesh for manufacturing PolyPropylene (PP) based HL (majority of expansion has already happened earlier). Rising in-house production capacity is likely to reduce reliance on China, which amounted to just 9% of sourcing mix in FY22.

**Disclosures improve substantially:** In a complete revamp, disclosures in the FY22 AR have witnessed stark improvement. Data on HL/SL manufacturing capacity, brand wise sales mix (volume & value) and touch points information has been clearly articulated in the AR (see tables/chart on page 4 for complete details). Better disclosures have increased transparency to a large extent.

**Exhibit 2: Disclosure in FY22 AR is best over last 5 years**

Particulars	FY18	FY19	FY20	FY21	FY22
HL/SL manufacturing capacity	No	No	No	No	Yes
EBO count	No	No	No	No	Yes
Brand wise retail presence - touch points	No	No	No	No	Yes
Brand wise sales mix - value	No	No	No	No	Yes
Brand wise sales mix - volume	No	No	No	No	Yes

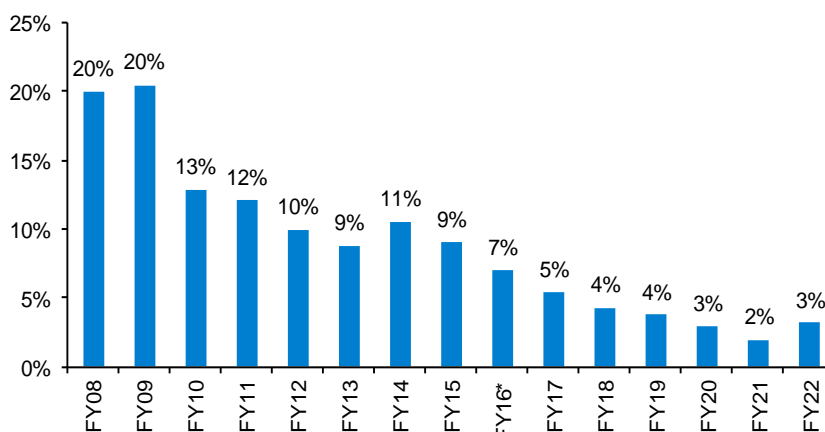
Source: Company, PL

**102 new product launches in FY22:** VIP launched 59 new products in the premium/economy segment and 43 new products in value segment in FY22. Most new launches have been in the value (Aristocrat) and economy (Skybags) segment. In addition, smart luggage with an in-built GPS was also launched during the year to prevent risk of loss.

As schools have re-opened after nearly 2 years, **around 350 new designs have been launched in the Skybags backpacks segment**. Accordingly, we expect strong recovery in sales volumes of backpacks which was hovering around 50% of pre-COVID levels in FY22.

**E-com share rises to 13% in FY22:** Revenue share of e-com channel has increased from 6% in FY20 to 13% in FY22. E-com top-line is already at 155% of pre-COVID levels and the channel witnessed 66% growth in FY22. Given e-com is one of the fastest growing channel, rising share in overall sales mix is a healthy sign.

**Exports/international business holds strong potential:** Post pandemic, most countries are looking to de-risk supply chain from China. VIP has been receiving strong enquiries from OEMs and the share of exports (~3% of revenue in FY22 with presence in 45 countries) will likely improve in future, as business relationship has been developed in gulf and other countries.

**Exhibit 3: Export revenue was 3% in FY22 but has potential to rise**


Source: Company, PL

PS: \*FY16 figure is a rough approximation as exact share is not available

**Bangladesh topline at Rs4,158mn in FY22:** Top-line from low cost destination Bangladesh was Rs4,158mn with a PAT margin of 2.5% in FY22. We expect 17% sales CAGR over FY22-24E with a PAT margin of 15.5% in FY24E. Higher contribution from Bangladesh would act as a key margin lever, given labor cost arbitrage and import duty benefits vis-à-vis China.

**Exhibit 4: Bangladesh sales CAGR to be at 17% over FY22-24E**

Particulars (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sales	2,320	1,222	4,158	4,784	5,741
PAT	340	(57)	104	742	890
<i>PAT margin</i>	<i>14.7%</i>	<i>NM</i>	<i>2.5%</i>	<i>15.5%</i>	<i>15.5%</i>

Source: Company, PL

**Exhibit 5: Revenue from Bangladesh operations was Rs4,158mn in FY22**

Particulars (Rs mn)	VIP Industries Bangladesh Pvt Ltd	VIP Industries BD Manufacturing Pvt Ltd	VIP Luggage BD Pvt Ltd	VIP Accessories BD Pvt Ltd	Total - Bangladesh Operations
Revenue	860	1,406	1,687	205	<b>4,158</b>
PAT	16	88	(36)	35	<b>104</b>
Networth	227	418	(18)	49	<b>677</b>
Shareholding	100%	100%	100%	100%	

Source: Company, PL

## Key data points from AR

**Exhibit 6: Luggage capacity breakdown - FY22**

Category	Units per month
Hard Luggage	4,25,000
Soft Luggage	6,00,000
<b>Total</b>	<b>10,25,000</b>

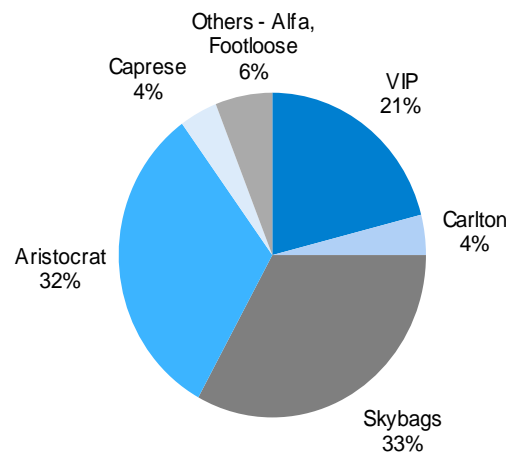
Source: Company, PL

**Exhibit 7: VIP, Skybags, & Aristocrat have highest retail presence in FY22**

Brand	Retail outlets
VIP	10,212
Carlton	1,442
Skybags	10,497
Aristocrat	10,016
Caprese	1,420

Source: Company, PL

**Exhibit 8: Skybags and Aristocrat contribute 65% of revenues in FY22**



Source: Company, PL

**Exhibit 9: Volumes of Skybags/Aristocrat grew 47%/44% YoY**

Luggage units sold (mn)	FY21	FY22
VIP	2.7	2.2
Skybags	1.9	2.9
Aristocrat	2.2	3.1

Source: Company, PL

## Board mix, CSR spends & contingent liability breakdown

### Exhibit 10: Board composition and KMPs in FY22

Chairman	Dilip G. Piramal
Executive Vice Chairperson	Radhika Piramal
Managing Director	Anindya Dutta
Independent Director	Nisaba Godrej
Independent Director	Tushar Jani
Independent Director	Ramesh Damani
Independent Director	Amit Jatia
Chief Financial Officer	Neetu Kashiramka
Company Secretary	Anand Daga

Source: Company, PL

### Exhibit 11: CSR spends are at ~2% of 3 year's average NP

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22
Average net profit of last three years	908.1	1,294.2	1,640.4	1,737.9	784.3
CSR spends	18.2	27.2	33.1	34.8	15.7
CSR spends as a % of 3 year average NP	2.0%	2.1%	2.0%	2.0%	2.0%

Source: Company, PL

### Exhibit 12: Total remuneration for KMPs was Rs114mn in FY22

Remuneration (Rs mn)	FY18	FY19	FY20	FY21	FY22
MD	37.0	26.3	29.5	33.9	40.6
CFO	15.0	16.3	19.0	15.1	34.3
CS	4.5	5.5	6.4	4.7	10.2
Executive Vice Chairperson	38.0	75.9	25.6	17.6	29.3
<b>Total</b>	<b>94.5</b>	<b>124.0</b>	<b>80.5</b>	<b>71.3</b>	<b>114.4</b>

Source: Company, PL

### Exhibit 13: Sales tax forms major portion of contingent liability

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22
Claims against the group not acknowledged as debts	0.4	0.4	0.4	-	-
Income tax matters	12.5	13.6	18.3	28.2	29.0
Sales tax matters	1,458.4	1,833.1	2,454.1	3,190.4	3,497.9
Excise and customs matters	5.5	5.5	5.5	5.5	5.5
<b>Total</b>	<b>1,476.8</b>	<b>1,852.6</b>	<b>2,478.3</b>	<b>3,224.1</b>	<b>3,532.4</b>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>6,186</b>	<b>12,895</b>	<b>18,444</b>	<b>21,116</b>
YoY gr. (%)	(63.9)	108.5	43.0	14.5
Cost of Goods Sold	3,662	6,450	8,908	9,882
Gross Profit	2,524	6,445	9,535	11,234
Margin (%)	40.8	50.0	51.7	53.2
Employee Cost	1,376	1,887	2,213	2,471
Other Expenses	1,801	3,114	3,781	4,392
<b>EBITDA</b>	<b>(653)</b>	<b>1,444</b>	<b>3,541</b>	<b>4,371</b>
YoY gr. (%)	NA	NA	145.2	23.4
Margin (%)	NA	11.2	19.2	20.7
Depreciation and Amortization	779	700	830	950
<b>EBIT</b>	<b>(1,432)</b>	<b>744</b>	<b>2,711</b>	<b>3,421</b>
Margin (%)	NA	5.8	14.7	16.2
Net Interest	298	246	203	179
Other Income	484	364	166	190
<b>Profit Before Tax</b>	<b>(1,246)</b>	<b>862</b>	<b>2,674</b>	<b>3,431</b>
Margin (%)	NA	6.7	14.5	16.3
Total Tax	(271)	192	674	865
Effective tax rate (%)	NA	22.3	25.2	25.2
<b>Profit after tax</b>	<b>(975)</b>	<b>669</b>	<b>2,000</b>	<b>2,567</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>(975)</b>	<b>669</b>	<b>2,000</b>	<b>2,567</b>
YoY gr. (%)	NA	NA	198.9	28.3
Margin (%)	NA	5.2	10.8	12.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(975)</b>	<b>669</b>	<b>2,000</b>	<b>2,567</b>
YoY gr. (%)	NA	NA	198.9	28.3
Margin (%)	NA	5.2	10.8	12.2
Other Comprehensive Income	20	26	-	-
Total Comprehensive Income	(955)	696	2,000	2,567
<b>Equity Shares O/s (m)</b>	<b>141</b>	<b>141</b>	<b>141</b>	<b>141</b>
<b>EPS (Rs)</b>	<b>(6.9)</b>	<b>4.7</b>	<b>14.1</b>	<b>18.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>4,821</b>	<b>5,208</b>	<b>6,071</b>	<b>6,740</b>
Tangibles	4,741	5,118	5,966	6,616
Intangibles	81	90	105	124
<b>Acc: Dep / Amortization</b>	<b>1,939</b>	<b>2,561</b>	<b>3,391</b>	<b>4,341</b>
Tangibles	1,881	2,486	3,300	4,231
Intangibles	58	74	91	110
<b>Net fixed assets</b>	<b>2,882</b>	<b>2,648</b>	<b>2,681</b>	<b>2,400</b>
Tangibles	2,860	2,632	2,667	2,385
Intangibles	22	16	14	14
Capital Work In Progress	23	75	75	75
Goodwill	-	-	-	-
Non-Current Investments	188	188	232	264
Net Deferred tax assets	329	205	140	140
Other Non-Current Assets	134	175	190	199
<b>Current Assets</b>				
Investments	1,400	407	122	122
Inventories	3,017	5,184	4,649	5,322
Trade receivables	1,485	2,185	3,032	3,587
Cash & Bank Balance	905	207	117	669
Other Current Assets	447	948	1,107	1,373
<b>Total Assets</b>	<b>10,949</b>	<b>12,302</b>	<b>12,464</b>	<b>14,286</b>
<b>Equity</b>				
Equity Share Capital	283	283	283	283
Other Equity	4,889	5,314	6,890	9,032
<b>Total Networkth</b>	<b>5,172</b>	<b>5,597</b>	<b>7,173</b>	<b>9,315</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,611	1,370	1,370	1,370
Provisions	118	134	129	148
Other non current liabilities	1	1	2	2
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,924	1,612	385	385
Trade payables	1,540	2,824	2,628	2,314
Other current liabilities	555	733	731	701
<b>Total Equity &amp; Liabilities</b>	<b>10,949</b>	<b>12,302</b>	<b>12,464</b>	<b>14,286</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	(1,246)	862	2,674	3,431
Add. Depreciation	779	700	830	950
Add. Interest	298	246	203	179
Less Financial Other Income	484	364	166	190
Add. Other	(340)	(58)	-	-
Op. profit before WC changes	(509)	1,750	3,707	4,561
Net Changes-WC	1,390	(1,901)	(687)	(1,829)
Direct tax	(30)	(86)	(610)	(865)
<b>Net cash from Op. activities</b>	<b>851</b>	<b>(237)</b>	<b>2,410</b>	<b>1,868</b>
Capital expenditures	164	(340)	(648)	(250)
Interest / Dividend Income	24	114	-	-
Others	(1,639)	1,688	2	(462)
<b>Net Cash from Inv. activities</b>	<b>(1,451)</b>	<b>1,461</b>	<b>(646)</b>	<b>(712)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	1,215	(310)	(1,227)	-
Dividend paid	(4)	(355)	(424)	(424)
Interest paid	(61)	(147)	(203)	(179)
Others	(415)	(443)	-	-
<b>Net cash from Fin. activities</b>	<b>735</b>	<b>(1,255)</b>	<b>(1,854)</b>	<b>(604)</b>
<b>Net change in cash</b>	<b>135</b>	<b>(31)</b>	<b>(90)</b>	<b>552</b>
Free Cash Flow	729	(601)	1,762	1,618

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	(6.9)	4.7	14.1	18.1
CEPS	(1.4)	9.7	20.0	24.9
BVPS	36.6	39.6	50.7	65.9
FCF	5.2	(4.3)	12.5	11.4
DPS	-	-	3.0	3.0
<b>Return Ratio(%)</b>				
RoCE	NA	8.6	31.0	34.2
ROIC	NA	11.7	28.4	30.6
RoE	NA	12.4	31.3	31.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.4	0.2	0.1
Net Working Capital (Days)	175	129	100	114
<b>Valuation(x)</b>				
PER	NA	129.7	43.4	33.8
P/B	16.8	15.5	12.1	9.3
P/CEPS	NA	63.4	30.7	24.7
EV/EBITDA	NA	61.8	24.9	20.1
EV/Sales	14.2	6.9	4.8	4.2
Dividend Yield (%)	-	-	0.5	0.5

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23E
<b>Net Revenue</b>	<b>3,301</b>	<b>3,973</b>	<b>3,559</b>	<b>6,001</b>
YoY gr. (%)	221.4	70.9	46.5	191.0
Raw Material Expenses	1,745	2,030	1,663	2,988
Gross Profit	1,555	1,944	1,896	3,012
Margin (%)	47.1	48.9	53.3	50.2
<b>EBITDA</b>	<b>418</b>	<b>572</b>	<b>326</b>	<b>1,272</b>
YoY gr. (%)	NA	602.1	918.1	884.6
Margin (%)	12.7	14.4	9.2	21.2
Depreciation / Depletion	175	174	170	204
<b>EBIT</b>	<b>243</b>	<b>397</b>	<b>156</b>	<b>1,068</b>
Margin (%)	7.4	10.0	4.4	17.8
Net Interest	65	54	54	60
Other Income	67	94	58	42
<b>Profit before Tax</b>	<b>246</b>	<b>437</b>	<b>160</b>	<b>1,050</b>
Margin (%)	7.4	11.0	4.5	17.5
Total Tax	60	102	37	265
Effective tax rate (%)	24.5	23.4	22.8	25.2
<b>Profit after Tax</b>	<b>185</b>	<b>335</b>	<b>124</b>	<b>785</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>185</b>	<b>335</b>	<b>124</b>	<b>785</b>
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	5.6	8.4	3.5	13.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>185</b>	<b>335</b>	<b>124</b>	<b>785</b>
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	5.6	8.4	3.5	13.1
Other Comprehensive Income	1	11	5	-
<b>Total Comprehensive Income</b>	<b>186</b>	<b>345</b>	<b>129</b>	<b>785</b>
Avg. Shares O/s (m)	141	141	141	141
<b>EPS (Rs)</b>	<b>1.3</b>	<b>2.4</b>	<b>0.9</b>	<b>5.6</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	817	621
2	17-May-22	BUY	817	598
3	08-Apr-22	BUY	825	726
4	02-Feb-22	BUY	769	677
5	10-Jan-22	BUY	726	542
6	25-Nov-21	BUY	726	592
7	31-Oct-21	BUY	621	543
8	07-Oct-21	BUY	573	546
9	12-Aug-21	BUY	457	386

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	184	180
2	Indian Railway Catering and Tourism Corporation	Hold	648	583
3	Inox Leisure	BUY	668	523
4	Music Broadcast	Hold	24	23
5	Navneet Education	BUY	121	97
6	Nazara Technologies	BUY	901	635
7	PVR	BUY	2,227	1,886
8	S Chand and Company	BUY	156	115
9	Safari Industries (India)	BUY	1,288	931
10	V.I.P. Industries	BUY	817	621
11	Zee Entertainment Enterprises	BUY	358	223

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



## ANALYST CERTIFICATION

### (Indian Clients)

We/I, Mr. Jinesh Joshi- MS(Finance) and CFA, Ms. Shweta Shekhawat- MBA Finance & MCom Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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### **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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