

July 28, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	857		817	
Sales (Rs. m)	18,872	21,608	18,444	21,116
% Chng.	2.3	2.3		
EBITDA (Rs. m)	3,529	4,322	3,541	4,371
% Chng.	(0.3)	(1.1)		
EPS (Rs.)	14.7	19.1	14.1	18.1
% Chng.	3.9	5.0		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	6,186	12,895	18,872	21,608
EBITDA (Rs. m)	(653)	1,444	3,529	4,322
Margin (%)	NA	11.2	18.7	20.0
PAT (Rs. m)	(975)	669	2,078	2,695
EPS (Rs.)	(6.9)	4.7	14.7	19.1
Gr. (%)	NA	NA	210.5	29.7
DPS (Rs.)	-	-	3.0	3.0
Yield (%)	-	-	0.5	0.5
RoE (%)	NA	12.4	32.1	31.7
RoCE (%)	NA	8.6	31.2	34.2
EV/Sales (x)	15.0	7.3	4.9	4.3
EV/EBITDA (x)	NA	65.3	26.4	21.5
PE (x)	NA	137.3	44.2	34.1
P/BV (x)	17.7	16.4	12.5	9.5

Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.775 / Rs.374
Sensex / Nifty	55,816 / 16,642
Market Cap	Rs.92bn / \$ 1,150m
Shares Outstanding	142m
3M Avg. Daily Value	Rs.229.98m

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	2.3	16.8	62.4
Relative	(2.6)	19.8	53.0

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Revenue recovery in place; RM inflation persists

Quick Pointers:

- 1QFY23 had 38 new launches in luggage and 127 in backpacks category.
- Revenue breaches pre-pandemic levels by 4.7% for the first time.

VIP posted strong recovery with top-line breaching the pre-pandemic base by 4.7% with a satisfactory GM of 49.9% (PLe of 50.2%) despite persistent RM cost inflation. However, EBITDA margin of 17.4% was lower than our estimate due to unfavorable FX impact (Rs87mn) and higher A&P spends (5.4% of sales).

While our GM assumptions are broadly intact at 51.7%/53.2% for FY23/FY24 respectively, EPS estimates have been revised upwards by ~4-5% due to re-alignment in tax forecast. We believe upstream transformation with reduced reliance on China (~11% of sales in 1QFY23) is a structural shift that can emerge as a key margin lever and surprise positively once RM inflation stabilizes. Opportunity from exports (~5% of sales in 1QFY23) can also turn out to be sizeable as most countries are looking to de-risk their supply chain from China post-pandemic. In addition, focus on the mass/value segment (contribution has increased from 25% in 1QFY20 to 35% in 1QFY23) with a string of new launches will help VIP compete better with Safari. Overall, while demand momentum is strong; volatility in FX, freight and RM poses near term risks. We retain BUY on the stock with a revised TP of Rs857 (45x FY24E EPS; no change) and expect sales/EBITDA CAGR 29%/73% over FY22-FY24E.

Revenue increased 186.4%YoY: Top-line increased 186.4% YoY to Rs5,906mn (PLe Rs6,001mn) and was 4.7% higher than pre-COVID base.

RM inflation impacts GM: Gross profit increased 180.8% YoY to Rs2,949mn (PLe Rs3,012mn) with margin of 49.9% (PLe 50.2%) versus 53.3%/50.9% in 4QFY22/1QFY22 respectively due to persistent rise in RM cost.

EBITDA and adjusted PAT margin stood at 17.4%/9.2%: EBITDA increased 696.0% YoY to Rs1,026mn with a margin of 17.4%. PAT stood at Rs691mn with a margin of 11.7%. There was an exceptional gain of Rs150mn relating to partial fire insurance claim received for loss of PPE and inventory at a warehouse. Adjusting for this, PAT stood at Rs541mn with 9.2% margin.

Con-call highlights: 1) Volume/value growth is 8%/5% respectively over 1QFY20. 2) Target to open 120-150 EBO remains intact. Opened 21 EBOs and signed up 23 in 1QFY23. 3) EBOs revenue is similar to 1QFY20 despite having 100 lesser operational stores. 4) Rs500mn capex outlined for FY23E. 5) A&P spends to be more or less at the current level of 5.4% in FY23E. 6) PC costs 70% more than PP on per kg basis. However, the differential in margins is only 1-1.5% as PC is largely utilized in manufacturing premium products while PP is used for mass/value products (differential ASPs for both). 7) 53-55% of GM can be sustained in a stabilized RM environment. 8) Tax rate is higher at 36.4% on account of dividends received from Bangladesh. It will revert to a blended rate of ~22.5%-23% (Tax of 25%/15% in India/Bangladesh). 9) Future group used to account for ~15% of the revenue. Out of 430 stores with the group, 44 stores were operational in 1QFY23.

Exhibit 1: Q1FY23 Result Overview - Consolidated (Rs mn)

Y/e March	Q1FY23	Q1FY22	YoY gr.	Q4FY22	QoQ gr.
Net sales	5,906	2,062	186.4%	3,559	65.9%
Total raw material cost	2,957	1,012	192.3%	1,663	77.8%
<i>As a % of sales</i>	<i>50.1%</i>	<i>49.1%</i>		<i>46.7%</i>	
Gross Profit	2,949	1,050	180.8%	1,896	55.5%
<i>Gross margin</i>	<i>49.9%</i>	<i>50.9%</i>		<i>53.3%</i>	
Employee expenses	602	389	54.7%	556	8.1%
<i>As a % of sales</i>	<i>10.2%</i>	<i>18.9%</i>		<i>15.6%</i>	
Other expenses	1,321	533	148.0%	1,014	30.3%
<i>As a % of sales</i>	<i>22.4%</i>	<i>25.8%</i>		<i>28.5%</i>	
EBITDA	1,026	129	NM	326	NM
<i>EBITDA margin</i>	<i>17.4%</i>	<i>6.3%</i>		<i>9.2%</i>	
Depreciation	180	181	-0.2%	170	6.0%
EBIT	846	(52)	NM	156	NM
<i>EBIT margin</i>	<i>14.3%</i>	<i>NM</i>		<i>4.4%</i>	
Interest cost	65	74	-11.0%	54	21.8%
Other income	71	144	-50.9%	58	20.9%
PBT	851	18	NM	160	NM
Exceptional items	(150)	-	-	-	-
Tax expenses	310	(7)	NM	37	NM
<i>Tax rate</i>	<i>36.4%</i>	<i>NM</i>		<i>22.8%</i>	
PAT	691	25	NM	124	NM
<i>PAT margin</i>	<i>11.7%</i>	<i>1.2%</i>		<i>3.5%</i>	
EPS (Rs)	4.9	0.2	NM	0.9	4.6
Adjusted PAT	541	25	NM	124	NM
<i>Adjusted PAT margin</i>	<i>9.2%</i>	<i>1.2%</i>		<i>3.5%</i>	
Adjusted EPS (Rs)	3.8	0.2	NM	0.9	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	4Q'22	1Q'23	FY21	FY22	FY23E	FY24E
Sales	430	513	657	720	-	182	270	770	530	770	1,250	1,610	1,862	1,222	4,160	4,992	5,741
PAT	40	57	83	160	(103)	(24)	(10)	80	(4)	(11)	86	33	220	(57)	104	649	890
<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>2.0%</i>	<i>11.8%</i>	<i>NM</i>	<i>2.5%</i>	<i>13.0%</i>	<i>15.5%</i>
<i>Bangladesh's sales a % 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>45.2%</i>	<i>31.5%</i>	<i>19.8%</i>	<i>32.3%</i>	<i>26.5%</i>	<i>26.6%</i>
Standalone PAT#	860	302	266	(56)	(417)	(223)	(87)	(119)	35	236	276	91	678	(845)	637		
<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>2.6%</i>	<i>12.0%</i>	<i>NM</i>	<i>5.1%</i>		

Source: Company, PL # PAT for 1QFY20/1QFY23 is adjusted for exceptional items * Figures for 3QFY20 were not shared

Exhibit 3: Gross & EBITDA margin trend is volatile due to fluctuation in currency & raw material prices

Particulars	1QFY20*	2QFY20*	3QFY20*	4QFY20*	1QFY21*	2QFY21*	3QFY21*	4QFY21*	1QFY22*	2QFY22*	3QFY22*	4QFY22*	1QFY23*
Gross margin	50.4%	53.3%	53.2%	57.6%	42.3%	38.7%	38.4%	43.8%	50.9%	47.1%	48.9%	53.3%	49.9%
EBITDA margin	19.2%	12.2%	11.8%	4.7%	NM	NM	3.5%	1.3%	6.3%	12.7%	14.4%	9.2%	17.4%

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

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	6,186	12,895	18,872	21,608
YoY gr. (%)	(63.9)	108.5	46.4	14.5
Cost of Goods Sold	3,662	6,450	9,115	10,112
Gross Profit	2,524	6,445	9,757	11,495
Margin (%)	40.8	50.0	51.7	53.2
Employee Cost	1,376	1,887	2,265	2,528
Other Expenses	1,801	3,114	3,963	4,646
EBITDA	(653)	1,444	3,529	4,322
YoY gr. (%)	NA	NA	144.4	22.5
Margin (%)	NA	11.2	18.7	20.0
Depreciation and Amortization	779	700	774	821
EBIT	(1,432)	744	2,755	3,500
Margin (%)	NA	5.8	14.6	16.2
Net Interest	298	246	245	216
Other Income	484	364	189	216
Profit Before Tax	(1,246)	862	2,849	3,500
Margin (%)	NA	6.7	15.1	16.2
Total Tax	(271)	192	621	805
Effective tax rate (%)	21.8	22.3	21.8	23.0
Profit after tax	(975)	669	2,228	2,695
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(975)	669	2,078	2,695
YoY gr. (%)	NA	NA	210.5	29.7
Margin (%)	NA	5.2	11.0	12.5
Extra Ord. Income / (Exp)	-	-	150	-
Reported PAT	(975)	669	2,228	2,695
YoY gr. (%)	NA	NA	232.9	21.0
Margin (%)	NA	5.2	11.8	12.5
Other Comprehensive Income	20	26	(44)	-
Total Comprehensive Income	(955)	696	2,184	2,695
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	(6.9)	4.7	14.7	19.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	4,821	5,208	5,923	6,592
Tangibles	4,741	5,118	5,818	6,468
Intangibles	81	90	105	124
Acc: Dep / Amortization	1,939	2,561	3,334	4,155
Tangibles	1,881	2,486	3,244	4,049
Intangibles	58	74	90	106
Net fixed assets	2,882	2,648	2,589	2,437
Tangibles	2,860	2,632	2,574	2,419
Intangibles	22	16	15	18
Capital Work In Progress	23	75	75	75
Goodwill	-	-	-	-
Non-Current Investments	188	188	237	270
Net Deferred tax assets	329	205	140	140
Other Non-Current Assets	134	175	191	201
Current Assets				
Investments	1,400	407	122	122
Inventories	3,017	5,184	4,757	5,446
Trade receivables	1,485	2,185	3,102	3,670
Cash & Bank Balance	905	207	260	767
Other Current Assets	447	948	1,132	1,405
Total Assets	10,949	12,302	12,728	14,672
Equity				
Equity Share Capital	283	283	283	283
Other Equity	4,889	5,314	7,074	9,345
Total Network	5,172	5,597	7,357	9,628
Non-Current Liabilities				
Long Term borrowings	1,611	1,370	1,370	1,370
Provisions	118	134	132	151
Other non current liabilities	1	1	2	2
Current Liabilities				
ST Debt / Current of LT Debt	1,924	1,612	385	385
Trade payables	1,540	2,824	2,689	2,368
Other current liabilities	555	733	747	716
Total Equity & Liabilities	10,949	12,302	12,728	14,672

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	(1,246)	862	2,699	3,500
Add. Depreciation	779	700	774	821
Add. Interest	298	246	245	216
Less Financial Other Income	484	364	189	216
Add. Other	(340)	(58)	150	-
Op. profit before WC changes	(509)	1,750	3,868	4,538
Net Changes-WC	1,390	(1,901)	(813)	(1,872)
Direct tax	(30)	(86)	(600)	(805)
Net cash from Op. activities	851	(237)	2,454	1,861
Capital expenditures	164	(340)	(500)	(250)
Interest / Dividend Income	24	114	-	-
Others	(1,639)	1,688	(5)	(463)
Net Cash from Invt. activities	(1,451)	1,461	(505)	(713)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,215	(310)	(1,227)	-
Dividend paid	(4)	(355)	(424)	(424)
Interest paid	(61)	(147)	(245)	(216)
Others	(415)	(443)	-	-
Net cash from Fin. activities	735	(1,255)	(1,897)	(640)
Net change in cash	135	(31)	52	508
Free Cash Flow	729	(601)	1,954	1,611

Source: Company Data, PL Research

Key Financial Metrics

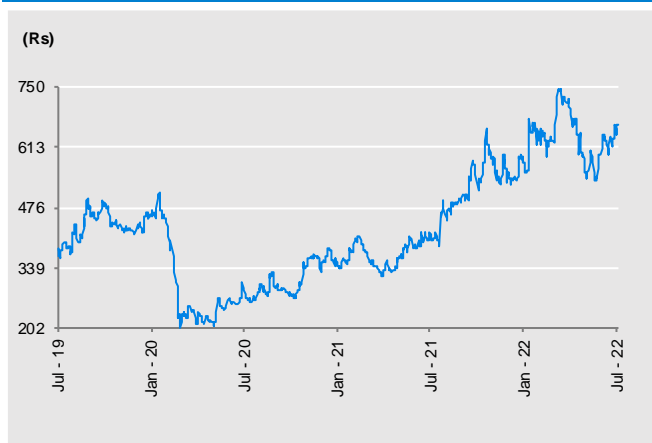
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	(6.9)	4.7	14.7	19.1
CEPS	(1.4)	9.7	20.2	24.9
BVPS	36.6	39.6	52.0	68.1
FCF	5.2	(4.3)	13.8	11.4
DPS	-	-	3.0	3.0
Return Ratio(%)				
RoCE	NA	8.6	31.2	34.2
ROIC	NA	11.7	27.7	29.5
RoE	NA	12.4	32.1	31.7
Balance Sheet				
Net Debt : Equity (x)	0.2	0.4	0.2	0.1
Net Working Capital (Days)	175	129	100	114
Valuation(x)				
PER	NA	137.3	44.2	34.1
P/B	17.7	16.4	12.5	9.5
P/CEPS	NA	67.1	32.2	26.1
EV/EBITDA	NA	65.3	26.4	21.5
EV/Sales	15.0	7.3	4.9	4.3
Dividend Yield (%)	-	-	0.5	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	3,301	3,973	3,559	5,906
YoY gr. (%)	221.4	70.9	46.5	186.4
Raw Material Expenses	1,745	2,030	1,663	2,957
Gross Profit	1,555	1,944	1,896	2,949
Margin (%)	47.1	48.9	53.3	49.9
EBITDA	418	572	326	1,026
YoY gr. (%)	NA	602.1	918.1	696.0
Margin (%)	12.7	14.4	9.2	17.4
Depreciation / Depletion	175	174	170	180
EBIT	243	397	156	846
Margin (%)	7.4	10.0	4.4	14.3
Net Interest	65	54	54	65
Other Income	67	94	58	71
Profit before Tax	246	437	160	1,001
Margin (%)	7.4	11.0	4.5	16.9
Total Tax	60	102	37	310
Effective tax rate (%)	24.5	23.4	22.8	31.0
Profit after Tax	185	335	124	691
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	185	335	124	541
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	5.6	8.4	3.5	9.2
Extra Ord. Income / (Exp)	-	-	-	150
Reported PAT	185	335	124	691
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	5.6	8.4	3.5	11.7
Other Comprehensive Income	1	11	5	(44)
Total Comprehensive Income	186	345	129	647
Avg. Shares O/s (m)	141	141	141	142
EPS (Rs)	1.3	2.4	0.9	3.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Jul-22	BUY	817	614
2	07-Jul-22	BUY	817	621
3	17-May-22	BUY	817	598
4	08-Apr-22	BUY	825	726
5	02-Feb-22	BUY	769	677
6	10-Jan-22	BUY	726	542
7	25-Nov-21	BUY	726	592
8	31-Oct-21	BUY	621	543
9	07-Oct-21	BUY	573	546
10	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	2,330	1,915
8	S Chand and Company	BUY	156	115
9	Safari Industries (India)	BUY	1,288	931
10	V.I.P. Industries	BUY	817	614
11	Zee Entertainment Enterprises	BUY	358	223

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

ANALYST CERTIFICATION

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