

October 22, 2022

## Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,009		1,020	
Sales (Rs. m)	24,110	27,691	23,356	26,827
% Chng.	3.2	3.2		
EBITDA (Rs. m)	4,533	5,538	4,554	5,553
% Chng.	(0.5)	(0.3)		
EPS (Rs.)	19.8	25.0	20.1	25.3
% Chng.	(1.3)	(1.0)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	12,895	20,884	24,110	27,691
EBITDA (Rs. m)	1,444	3,488	4,533	5,538
Margin (%)	11.2	16.7	18.8	20.0
PAT (Rs. m)	669	2,042	2,803	3,539
EPS (Rs.)	4.7	14.4	19.8	25.0
Gr. (%)	NA	205.1	37.3	26.3
DPS (Rs.)	2.5	3.0	3.0	3.0
Yield (%)	0.4	0.4	0.4	0.4
RoE (%)	12.4	31.6	32.9	31.4
RoCE (%)	8.6	30.8	35.5	35.1
EV/Sales (x)	8.0	4.9	4.2	3.6
EV/EBITDA (x)	71.2	29.1	22.3	18.0
PE (x)	150.0	49.2	35.8	28.4
P/BV (x)	17.9	13.7	10.3	7.8

### Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.775 / Rs.492
Sensex / Nifty	59,307 / 17,576
Market Cap	Rs.100bn / \$ 1,215m
Shares Outstanding	142m
3M Avg. Daily Value	Rs.289.61m

### Shareholding Pattern (%)

Promoter's	51.33
Foreign	8.95
Domestic Institution	20.58
Public & Others	19.14
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	3.1	1.0	33.6
Relative	3.3	(1.4)	37.3

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## V.I.P. Industries (VIP IN)

Rating: BUY | CMP: Rs710 | TP: Rs1,009

### Sharp revenue recovery; margin expansion key

#### Quick Pointers:

- GM declines 182bps sequentially to 48.1%, however cooling RM prices and declining freight cost will lead to a recovery in 2HFY23.
- Revenue was 24.9% higher than pre-COVID base signifying strong demand momentum.

**VIP posted strong recovery with top-line breaching the pre-pandemic base by a handsome margin of 24.9%. However, GM declined sequentially by 182 bps to 48.1% (PLe 50.3%) due to RM cost inflation.**

**Given 2QFY23 performance, coupled with expected improvement in market share we increase our FY24E/FY25E sales estimates by 3% odd. However, our EPS estimates are broadly intact as we believe benefits of RM stabilization and rising share of own manufacturing will be partially offset by slightly inferior product mix. Aristocrat's share has increased from 22% in 2QFY20 to 37% in 2QFY23 and given the quest to gain market share (~43% odd currently) contribution of this mass brand is likely to increase further. Nonetheless, we remain positive on long term prospects given 1) steady improvement in market share (~400 bps gain in last 1 year) 2) reduced reliance on China & rising self-sufficiency in own manufacturing (~70-75% contribution expected in FY23E) and 3) emergence of new twin levers viz; handbags and exports. We expect sales/PAT CAGR of 15%/27% over FY23-FY25 and retain BUY with a TP of Rs1,009 (45x Sep-24E EPS; no change in target multiple).**

**Revenue increased 56%YoY:** Top-line increased 56.0% YoY to Rs5,147mn (PLe of Rs4,951mn) breaching the pre-pandemic levels by 24.9%.

**RM inflation impacts GM:** Gross profit increased 59.2% YoY to Rs2,477mn (PLe Rs2,490mn) with margin of 48.1% (PLe 50.3%) versus 47.1%/49.9% in 2QFY22/1QFY23 respectively due to higher RM cost.

**EBITDA and PAT margin stood at 13.9%/8.4%:** EBITDA increased 71.2% YoY to Rs716mn with a margin of 13.9%. PAT stood at Rs434mn with a margin of 8.4%.

**Con-call highlights:** 1) Volumes in 2QFY23 are ~13-14% higher over pre-COVID base. 2) Revenue guidance of ~Rs20bn for FY23E remains intact. 3) Post FY23E, luggage and backpack industry is expected to grow at a CAGR of ~15% odd. 4) EBO count has increased to ~413. Of the 46 new EBOs opened in 1HFY23, only 4 are owned while rest are on franchise model. Target is to end FY23E with 500 EBOs. 5) No price hike has been undertaken since March. 6) Plans to increase the production capacity by ~25% which will entail capex outlay of Rs1bn in FY23E. 7) Share of own manufacturing is expected to be at ~70-75% in FY23E. 8) Future group exposure provided upto 25% and balance Rs90mn yet to be provided. 9) Export share has increased to 5% versus 2% in 2QFY20 due to adoption of a renewed strategy in key market of UAE and expansion into 7 new countries. 10) Given the shift towards value segment, Aristocrat's share has risen from 22% in 2QFY20 to 37% in 2QFY23.

## Exhibit 1: Q2FY23 Result Overview - Consolidated (Rs mn)

Y/e March	Q2FY23	Q2FY22	YoY gr.	Q1FY23	QoQ gr.	H1FY23	H1FY22	YoY gr.
<b>Net sales</b>	<b>5,147</b>	<b>3,301</b>	<b>56.0%</b>	<b>5,906</b>	<b>-12.8%</b>	<b>11,054</b>	<b>5,363</b>	<b>106.1%</b>
Total raw material cost	2,671	1,745	53.0%	2,957	-9.7%	5,628	2,757	104.1%
<i>As a % of sales</i>	<i>51.9%</i>	<i>52.9%</i>		<i>50.1%</i>		<i>50.9%</i>	<i>51.4%</i>	
<b>Gross Profit</b>	<b>2,477</b>	<b>1,555</b>	<b>59.2%</b>	<b>2,949</b>	<b>-16.0%</b>	<b>5,426</b>	<b>2,606</b>	<b>108.2%</b>
<i>Gross margin</i>	<i>48.1%</i>	<i>47.1%</i>		<i>49.9%</i>		<i>49.1%</i>	<i>48.6%</i>	
Employee expenses	578	443	30.5%	602	-3.9%	1,180	832	41.8%
<i>As a % of sales</i>	<i>11.2%</i>	<i>13.4%</i>		<i>10.2%</i>		<i>10.7%</i>	<i>15.5%</i>	
Other expenses	1,183	694	70.4%	1,321	-10.5%	2,504	1,227	104.1%
<i>As a % of sales</i>	<i>23.0%</i>	<i>21.0%</i>		<i>22.4%</i>		<i>22.7%</i>	<i>22.9%</i>	
<b>EBITDA</b>	<b>716</b>	<b>418</b>	<b>71.2%</b>	<b>1,026</b>	<b>-30.2%</b>	<b>1,742</b>	<b>547</b>	<b>218.4%</b>
<i>EBITDA margin</i>	<i>13.9%</i>	<i>12.7%</i>		<i>17.4%</i>		<i>15.8%</i>	<i>10.2%</i>	
Depreciation	180	175	2.8%	180	-0.3%	360	355	1.3%
<b>EBIT</b>	<b>536</b>	<b>243</b>	<b>120.3%</b>	<b>846</b>	<b>-36.6%</b>	<b>1,382</b>	<b>192</b>	<b>621.3%</b>
<i>EBIT margin</i>	<i>10.4%</i>	<i>7.4%</i>		<i>14.3%</i>		<i>12.5%</i>	<i>3.6%</i>	
Interest cost	69	65	6.5%	65	5.8%	135	139	-2.8%
Other income	53	67	-21.5%	71	-25.1%	123	211	-41.6%
<b>PBT</b>	<b>520</b>	<b>246</b>	<b>111.6%</b>	<b>851</b>	<b>-38.9%</b>	<b>1,371</b>	<b>264</b>	<b>419.0%</b>
Exceptional items	-	-	-	(150)		(150)	-	
Tax expenses	86	60	42.4%	310	-72.4%	396	53	641.0%
<i>Tax rate</i>	<i>16.5%</i>	<i>24.5%</i>		<i>36.4%</i>		<i>28.9%</i>	<i>20.2%</i>	
<b>PAT</b>	<b>434</b>	<b>185</b>	<b>134.1%</b>	<b>691</b>	<b>-37.2%</b>	<b>1,125</b>	<b>211</b>	<b>433.9%</b>
<i>PAT margin</i>	<i>8.4%</i>	<i>5.6%</i>		<i>11.7%</i>		<i>10.2%</i>	<i>3.9%</i>	
<b>EPS (Rs)</b>	<b>3.1</b>	<b>1.3</b>	<b>134.4%</b>	<b>4.9</b>	<b>-37.1%</b>	<b>8.0</b>	<b>1.5</b>	<b>433.6%</b>
<b>Adjusted PAT</b>	<b>434</b>	<b>185</b>	<b>134.1%</b>	<b>541</b>	<b>-19.8%</b>	<b>975</b>	<b>211</b>	<b>362.7%</b>
<i>Adjusted PAT margin</i>	<i>8.4%</i>	<i>5.6%</i>		<i>9.2%</i>		<i>8.8%</i>	<i>3.9%</i>	
<b>Adjusted EPS (Rs)</b>	<b>3.1</b>	<b>1.3</b>	<b>133.6%</b>	<b>3.8</b>	<b>-19.8%</b>	<b>6.9</b>	<b>1.5</b>	<b>361.9%</b>

Source: Company, PL

## Exhibit 2: Sales &amp; profitability profile of Bangladesh operations

Particulars (Rs mn)	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22	4Q'22	1Q'23	2Q'23	FY22	FY23E	FY24E	FY25E
Sales	513	657	720	-	182	270	770	530	770	1,250	1,610	1,862	1,363	4,160	5,408	6,219	7,152
PAT	57	83	160	(103)	(24)	(10)	80	(4)	(11)	86	33	220	166	104	676	871	1,001
<i>PAT margin</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>12.2%</i>	<i>2.5%</i>	<i>12.5%</i>	<i>14.0%</i>	<i>14.0%</i>
<i>Bangladesh's sales as % of total sales</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>26.5%</i>	<i>32.3%</i>	<i>25.9%</i>	<i>25.8%</i>	<i>25.8%</i>
Standalone PAT#	302	266	(56)	(417)	(223)	(87)	(119)	35	236	276	91	678	322	637			
<i>Standalone PAT margin</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>6.4%</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 &amp; EBITDA margin trend is volatile due to fluctuation in currency &amp; raw material prices

Particulars	2QFY20*	3QFY20*	4QFY20*	1QFY21*	2QFY21*	3QFY21*	4QFY21*	1QFY22*	2QFY22*	3QFY22*	4QFY22*	1QFY23*	2QFY23*
Gross margin	53.3%	53.2%	57.6%	42.3%	38.7%	38.4%	43.8%	50.9%	47.1%	48.9%	53.3%	49.9%	48.1%
EBITDA margin	12.2%	11.8%	4.7%	NM	NM	3.5%	1.3%	6.3%	12.7%	14.4%	9.2%	17.4%	13.9%

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

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>12,895</b>	<b>20,884</b>	<b>24,110</b>	<b>27,691</b>
YoY gr. (%)	108.5	62.0	15.4	14.9
Cost of Goods Sold	6,450	10,337	11,452	13,015
Gross Profit	6,445	10,546	12,658	14,676
Margin (%)	50.0	50.5	52.5	53.0
Employee Cost	1,887	2,506	2,821	3,101
Other Expenses	3,114	4,553	5,304	6,037
<b>EBITDA</b>	<b>1,444</b>	<b>3,488</b>	<b>4,533</b>	<b>5,538</b>
YoY gr. (%)	NA	141.5	30.0	22.2
Margin (%)	11.2	16.7	18.8	20.0
Depreciation and Amortization	700	773	892	969
<b>EBIT</b>	<b>744</b>	<b>2,715</b>	<b>3,641</b>	<b>4,569</b>
Margin (%)	5.8	13.0	15.1	16.5
Net Interest	246	271	241	249
Other Income	364	209	241	277
<b>Profit Before Tax</b>	<b>862</b>	<b>2,802</b>	<b>3,641</b>	<b>4,597</b>
Margin (%)	6.7	13.4	15.1	16.6
Total Tax	192	610	837	1,057
Effective tax rate (%)	22.3	21.8	23.0	23.0
<b>Profit after tax</b>	<b>669</b>	<b>2,192</b>	<b>2,803</b>	<b>3,539</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>669</b>	<b>2,042</b>	<b>2,803</b>	<b>3,539</b>
YoY gr. (%)	NA	205.1	37.3	26.3
Margin (%)	5.2	9.8	11.6	12.8
Extra Ord. Income / (Exp)	-	150	-	-
<b>Reported PAT</b>	<b>669</b>	<b>2,192</b>	<b>2,803</b>	<b>3,539</b>
YoY gr. (%)	NA	227.5	27.9	26.3
Margin (%)	5.2	10.5	11.6	12.8
Other Comprehensive Income	26	(44)	-	-
Total Comprehensive Income	696	2,149	2,803	3,539
<b>Equity Shares O/s (m)</b>	<b>141</b>	<b>141</b>	<b>141</b>	<b>141</b>
<b>EPS (Rs)</b>	<b>4.7</b>	<b>14.4</b>	<b>19.8</b>	<b>25.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,208</b>	<b>6,423</b>	<b>7,342</b>	<b>8,511</b>
Tangibles	5,118	6,318	7,218	8,368
Intangibles	90	105	124	143
<b>Acc: Dep / Amortization</b>	<b>2,561</b>	<b>3,333</b>	<b>4,225</b>	<b>5,195</b>
Tangibles	2,486	3,243	4,118	5,067
Intangibles	74	90	108	127
<b>Net fixed assets</b>	<b>2,648</b>	<b>3,090</b>	<b>3,117</b>	<b>3,317</b>
Tangibles	2,632	3,075	3,101	3,301
Intangibles	16	15	17	16
Capital Work In Progress	75	75	75	75
Goodwill	-	-	-	-
Non-Current Investments	188	261	300	343
Net Deferred tax assets	205	140	140	140
Other Non-Current Assets	175	198	209	222
<b>Current Assets</b>				
Investments	407	122	122	122
Inventories	5,184	4,863	5,615	6,449
Trade receivables	2,185	3,433	4,161	4,931
Cash & Bank Balance	207	384	887	2,087
Other Current Assets	948	940	1,326	1,661
<b>Total Assets</b>	<b>12,302</b>	<b>13,642</b>	<b>16,107</b>	<b>19,523</b>
<b>Equity</b>				
Equity Share Capital	283	283	283	283
Other Equity	5,314	7,038	9,417	12,532
<b>Total Network</b>	<b>5,597</b>	<b>7,321</b>	<b>9,700</b>	<b>12,815</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,370	1,370	1,370	1,370
Provisions	134	146	169	194
Other non current liabilities	1	2	2	3
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,612	385	385	385
Trade payables	2,824	3,547	3,633	3,793
Other current liabilities	733	819	791	898
<b>Total Equity &amp; Liabilities</b>	<b>12,302</b>	<b>13,642</b>	<b>16,107</b>	<b>19,523</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	862	2,652	3,641	4,597
Add. Depreciation	700	773	892	969
Add. Interest	246	271	241	249
Less Financial Other Income	364	209	241	277
Add. Other	(58)	150	-	-
Op. profit before WC changes	1,750	3,846	4,774	5,815
Net Changes-WC	(1,901)	(120)	(1,797)	(1,659)
Direct tax	(86)	(589)	(837)	(1,057)
<b>Net cash from Op. activities</b>	<b>(237)</b>	<b>3,137</b>	<b>2,139</b>	<b>3,099</b>
Capital expenditures	(340)	(1,000)	(500)	(350)
Interest / Dividend Income	114	-	-	-
Others	1,688	(37)	(471)	(876)
<b>Net Cash from Invt. activities</b>	<b>1,461</b>	<b>(1,037)</b>	<b>(971)</b>	<b>(1,226)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(310)	(1,227)	-	-
Dividend paid	(355)	(424)	(424)	(424)
Interest paid	(147)	(271)	(241)	(249)
Others	(443)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,255)</b>	<b>(1,923)</b>	<b>(665)</b>	<b>(674)</b>
<b>Net change in cash</b>	<b>(31)</b>	<b>177</b>	<b>503</b>	<b>1,199</b>
Free Cash Flow	(601)	2,137	1,639	2,749

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	4.7	14.4	19.8	25.0
CEPS	9.7	19.9	26.1	31.9
BVPS	39.6	51.8	68.6	90.6
FCF	(4.3)	15.1	11.6	19.4
DPS	2.5	3.0	3.0	3.0
<b>Return Ratio(%)</b>				
RoCE	8.6	30.8	35.5	35.1
ROIC	11.7	25.6	28.1	28.4
RoE	12.4	31.6	32.9	31.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.4	0.2	0.1	0.0
Net Working Capital (Days)	129	83	93	100
<b>Valuation(x)</b>				
PER	150.0	49.2	35.8	28.4
P/B	17.9	13.7	10.3	7.8
P/CEPS	73.3	35.7	27.2	22.3
EV/EBITDA	71.2	29.1	22.3	18.0
EV/Sales	8.0	4.9	4.2	3.6
Dividend Yield (%)	0.4	0.4	0.4	0.4

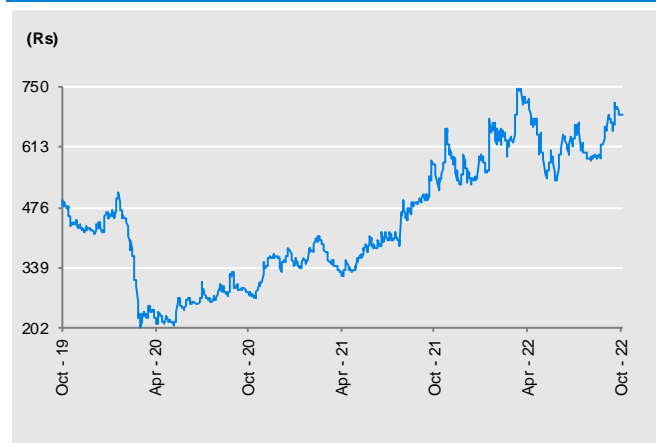
Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>3,973</b>	<b>3,559</b>	<b>5,906</b>	<b>5,147</b>
YoY gr. (%)	70.9	46.5	186.4	56.0
Raw Material Expenses	2,030	1,663	2,957	2,671
Gross Profit	1,944	1,896	2,949	2,477
Margin (%)	48.9	53.3	49.9	48.1
<b>EBITDA</b>	<b>572</b>	<b>326</b>	<b>1,026</b>	<b>716</b>
YoY gr. (%)	602.1	918.1	696.0	71.2
Margin (%)	14.4	9.2	17.4	13.9
Depreciation / Depletion	174	170	180	180
<b>EBIT</b>	<b>397</b>	<b>156</b>	<b>846</b>	<b>536</b>
Margin (%)	10.0	4.4	14.3	10.4
Net Interest	54	54	65	69
Other Income	94	58	71	53
<b>Profit before Tax</b>	<b>437</b>	<b>160</b>	<b>1,001</b>	<b>520</b>
Margin (%)	11.0	4.5	16.9	10.1
Total Tax	102	37	310	86
Effective tax rate (%)	23.4	22.8	31.0	16.5
<b>Profit after Tax</b>	<b>335</b>	<b>124</b>	<b>691</b>	<b>434</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>335</b>	<b>124</b>	<b>541</b>	<b>434</b>
YoY gr. (%)	NA	NA	NA	134.1
Margin (%)	8.4	3.5	9.2	8.4
Extra Ord. Income / (Exp)	-	-	150	-
<b>Reported PAT</b>	<b>335</b>	<b>124</b>	<b>691</b>	<b>434</b>
YoY gr. (%)	NA	NA	NA	134.1
Margin (%)	8.4	3.5	11.7	8.4
Other Comprehensive Income	11	5	(44)	(35)
<b>Total Comprehensive Income</b>	<b>345</b>	<b>129</b>	<b>647</b>	<b>399</b>
Avg. Shares O/s (m)	141	141	142	142
<b>EPS (Rs)</b>	<b>2.4</b>	<b>0.9</b>	<b>3.8</b>	<b>3.1</b>

Source: Company Data, PL Research

## Price Chart



## Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	1,020	699
2	30-Sep-22	BUY	1,020	649
3	28-Jul-22	BUY	857	650
4	13-Jul-22	BUY	817	614
5	07-Jul-22	BUY	817	621
6	17-May-22	BUY	817	598
7	08-Apr-22	BUY	825	726
8	02-Feb-22	BUY	769	677
9	10-Jan-22	BUY	726	542
10	25-Nov-21	BUY	726	592

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	190	167
2	Indian Railway Catering and Tourism Corporation	Hold	635	731
3	Inox Leisure	BUY	652	515
4	Music Broadcast	Hold	24	24
5	Navneet Education	BUY	170	130
6	Nazara Technologies	BUY	1,031	740
7	PVR	BUY	2,119	1,689
8	S Chand and Company	BUY	234	187
9	Safari Industries (India)	BUY	2,062	1,852
10	V.I.P. Industries	BUY	1,020	699
11	Zee Entertainment Enterprises	BUY	302	280

## 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

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