

Accelerated growth continues; margin profile to improve, going forward...

About the stock: VIP Industries is one of Asia's leading seller/manufacturer 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: 44% share)
- VIP has, over the years, maintained balance sheet prudence with stringent working capital policy, virtually debt free status and healthy RoCE: 30%+

Q3FY23 Results: VIP's revenue performance exceeded expectations in Q3 with highest ever sales in Q3. On pre-Covid base, revenue recovery rate was at 122%.

- On a favourable base, sales grew 32% YoY to ₹ 526.4 crore. The growth was driven by volume growth of 25% YoY
- Gross margins did witness an improvement on a sequential basis (up 130 bps YoY to 49.4%, Q3FY20: 53%) but was below our expectations (I-direct estimate: 51.3%)
- EBITDA margins declined 50 bps YoY (flattish QoQ) to 13.9% (Q3FY20: 15.7%, I-direct estimate: 15.8%)

What should investors do? VIP's share price has grown by ~2.0x over the past five years (from ~₹ 350 in January 2018 to ~₹ 700 levels in January 2023). Luggage being a proxy play to the travel & tourism industry was among the worst impacted sectors owing to pandemic in FY21, FY22. 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

Target Price and Valuation: We value VIP at ₹ 840 i.e. 48x 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 the company's healthy balance sheet, we expect VIP to be able to effectively manage through the challenging environment
- We expect the company to surpass ₹ 2000 crore revenue in FY23 and model revenue CAGR of 38% in FY22-24E (on a favourable base). Stabilising RM prices 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 ₹ 1730/share



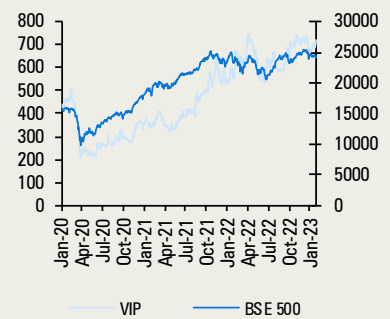
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	9,975.8
Total Debt (FY22) (₹ crore)	122.7
Cash (FY22) (₹ crore)	20.7
EV (₹ crore)	10,077.8
52 Week H / L	774 / 505
Equity Capital (₹ crore)	28.3
Face Value (₹)	2.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	50.3	50.4	50.8	51.3	51.3
FII	5.8	8.6	8.8	9.0	9.3
DII	23.6	21.4	20.8	19.1	19.9
Others	20.3	19.6	19.6	20.6	19.5

Price Chart



Key risks

- Key Risk:** (i) Inability to pass on higher RM costs (ii) Lower discretionary spend can subdue sales

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

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%	2,116.2	2,450.1	37.8%
EBITDA	224.7	291.3	-65.3	144.4	1.8%	317.8	424.2	71.4%
Net Profit	145.3	111.7	-97.5	66.9		200.2	246.5	
P/E (x)	68.7	89.3	-102.3	149.1		49.8	40.5	
EV/Sales (x)	5.6	5.8	16.0	7.8		4.7	4.1	
EV/EBITDA (x)	44.7	34.2	-151.7	69.5		31.6	23.5	
RoCE (%)	32.4	34.2	-14.1	16.2		31.8	37.4	
RoE (%)	25.0	18.3	-18.9	11.9		27.8	27.6	

Key quarterly takeaways and conference call highlights

- VIP reported healthy topline growth driven by a strong recovery in the travel and wedding season. Despite a decline in crude prices (~65% of RM based on crude derivatives), gross margin expansion for the company (on a sequential basis) was subdued. Hence, profitability came in below our estimates
- On a favourable base, sales grew 32% YoY to ₹ 526.4 crore (I-direct estimate: ₹ 500 crore). The growth was driven by volume growth of 25% YoY. On a pre-Covid base, revenue recovery rate was at 122% (volume growth: 18% over Q3FY20). This is VIP's highest ever Q3 sales
- Among categories, luggage segment (75% of sales) continues to dominate the product mix. However, the company witnessed a healthy recovery in the backpack segment (12% of sales) during the quarter. Backpacks registered 57% YoY revenue growth in Q3FY23 with revenue recovery rate reaching 101% of pre-Covid levels (vs. 88% in Q2FY23)
- Demand recovery was more compelling towards the mass category compared to the premium category, which was also fuelled by market share gains from unorganised players. The company rejigged its product portfolio towards the mass segment and launched several new products at lower price points in the category to capture the demand. The share of Aristocrat brand (value brand) was at 37% vs. pre-Covid levels of 22% while the share of VIP brand declined to 21% vs. 27%
- Gross margins did witness an improvement on a sequential basis (up 130 bps YoY to 49.4%, Q3FY20: 53%) but was below our expectations (I-direct estimate: 51.3%). The management indicated that benefits of declining RM prices and ocean freight were realised only in December during the quarter. The management expects a gradual improvement in gross margins in the ensuing quarter (gross margin range: 52-53%). Increased in-house manufacturing and higher spends on marketing resulted in a rise in opex by 37% YoY (up 15% on base of Q3FY20). Subsequently EBITDA margins declined 50 bps YoY (flattish QoQ) to 13.9% (Q3FY20: 15.7%, I-direct estimate: 15.8%). Absolute EBITDA came in at ₹ 73 crore (I-direct estimate: ₹ 79.2 crore), which is 107% of pre-Covid levels
- Own manufacturing contribution (Bangladesh & India) has increased significantly over the last two years. It is currently contributing ~70% of revenue in YTD FY23 (vs. 42% in FY20). The company is aspiring to achieve 75-80% of revenue from its India and Bangladesh plants, going forward. The company had significantly curtailed its dependence on finished goods from China to <10% vs. 40% in FY20
- To further strengthen its manufacturing capacity, the company has embarked on a ₹ 100 crore capex plan to enhance its capacity by ~25% by FY24E. As on FY22, the company had an annual capacity of 5.1 million of hard luggage and 7.2 million of soft luggage
- The company is gradually enhancing its distribution channel with touchpoints for general trade and modern trade channels closely tracking pre-Covid levels. As on date the company had 413 stores with 45 under fit outs. VIP is mulling exiting FY23E with 500 exclusive VIP outlets (it had shut 150 lossmaking stores out of its 500 outlets in FY21). Majority of the store additions would be through the franchise route. Revenue from modern trade channel, which was under pressure owing to closure of Future group stores (~15% of revenues) has now gradually picked up pace with restocking in other national chain stores
- On the outlook for the luggage industry, the management expects the organised luggage industry to grow at 15% CAGR over the next five years. The same growth is expected to be replicated at the company level as well

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	526.4	397.3	32.5	514.7	2.3	Revenue recovery rate stood at 122% of pre-covid levels. Volume grew ~18% over pre-covid levels
Raw Material Expense	266.2	203.0	31.1	267.1	-0.3	
Gross Profit	260.2	194.4	33.9	247.7	5.1	
Gross Profit Margin	49.4	48.9	52 bps	48.1	132 bps	Despite decline in RM prices, gross margin expansion for the company (on a sequential basis) was subdued owing to change in product mix and high cost of inventory.
Employee exp	59.5	49.9	19.3	57.8	2.9	
Other Exp	127.8	87.3	46.3	118.3	8.0	Other expenses higher owing to increased proportion of in-house manufacturing
EBITDA	73.0	57.2	27.7	71.6	1.9	
EBITDA Margin (%)	13.9	14.4	-52 bps	13.9	-5 bps	
Depreciation	18.1	17.4	3.6	18.0	0.4	
Other Income	2.6	9.4	-72.6	5.3	-51.1	
Interest	6.6	5.4	22.0	6.9	-4.5	
Exceptional Income	0.0	-				
PBT	50.9	43.7	16.4	52.0	-2.1	
Tax Outgo	6.7	10.2	-34.6	8.6	-21.8	
PAT	44.2	33.5	32.0	43.4	1.8	

Source: Company, ICICI Direct Research

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	618.6	1,289.5	2,116.2	2,450.1
Growth (%)	(64.0)	108.5	64.1	15.8
Total Raw Material Cost	366.2	645.0	1,068.7	1,176.1
Gross Margins (%)	40.8	50.0	49.5	52.0
Employee Expenses	137.6	188.7	237.0	281.8
Other Expenses	180.1	311.4	492.7	568.1
Total Operating Expenditure	683.8	1,145.1	1,798.4	2,025.9
EBITDA	(65.3)	144.4	317.8	424.2
EBITDA Margin	(10.6)	11.2	15.0	17.3
Interest	29.8	24.6	25.8	22.6
Depreciation	77.9	70.0	76.7	94.0
Other Income	48.4	36.4	20.0	22.0
Exceptional Income	-	-	15.0	-
PBT	(124.6)	86.2	250.3	329.6
Total Tax	(27.1)	19.2	50.1	83.1
Profit After Tax	(97.5)	66.9	200.2	246.5

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	-97.5	66.9	200.2	246.5
Add: Depreciation	77.9	70.0	76.7	94.0
Net Increase in Current Assets	277.8	-332.8	-209.2	-103.2
Net Increase in Current Liabilities	-140.2	149.5	59.9	55.4
Others	-70.0	0.0	0.0	0.0
CF from operating activities	48.0	-46.4	127.7	292.8
(Inc)/dec in Investments	-100.1	99.4	34.3	5.0
(Inc)/dec in Fixed Assets	19.6	-31.7	-74.8	-55.0
Others	12.8	34.3	25.7	0.0
CF from investing activities	-67.7	101.9	-14.8	-50.0
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	-40.0	-74.0
Others	-22.1	-70.2	-55.0	-61.0
CF from financing activities	99.4	-125.3	-117.7	-185.0
Net Cash flow	79.8	-69.8	-4.9	57.8
Opening Cash	10.8	90.5	20.7	15.8
Closing Cash	90.5	20.7	15.8	73.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	28.3	28.3	28.3	28.3
Reserve and Surplus	488.9	531.8	692.0	864.5
Total Shareholders funds	517.2	560.1	720.2	892.8
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	996.4	1,119.0
Gross block	173.3	200.4	275.4	330.4
Less: Accum depreciation	78.4	102.4	124.4	157.5
Net Fixed Assets	94.9	98.0	151.0	172.9
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	608.8	671.3
Cash	90.5	20.7	15.8	73.7
Debtors	148.5	218.5	336.3	375.9
Loans & Advances & Other C/	73.6	119.7	120.7	121.7
Total Current Assets	614.2	877.3	1,081.6	1,242.6
Creditors	154.0	282.4	347.9	402.8
Provisions & Other CL	67.3	88.5	82.9	83.4
Total Current Liabilities	221.3	370.8	430.8	486.2
Net Current Assets	392.9	506.5	650.8	756.4
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	996.5	1,119.0

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	-6.9	4.7	14.2	17.4
Cash EPS	-1.4	9.7	19.6	24.1
BV	36.6	39.6	51.0	63.2
DPS	0.0	2.5	2.8	5.2
Cash Per Share	6.4	1.5	1.1	5.2
Operating Ratios (%)				
EBITDA margins	-10.6	11.2	15.0	17.3
PBT margins	-20.1	6.7	11.8	13.5
Net Profit margins	-15.8	5.2	9.5	10.1
Inventory days	178.0	146.7	105.0	100.0
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	27.8	27.6
RoCE	-14.1	16.2	31.8	37.4
Valuation Ratios (x)				
P/E	-102.3	149.1	49.8	40.5
EV / EBITDA	-151.7	69.5	31.6	23.5
EV / Sales	16.0	7.8	4.7	4.1
Market Cap / Revenues	16.1	7.7	4.7	4.1
Price to Book Value	19.3	17.8	13.9	11.2
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	2.5	2.4
Quick Ratio	1.0	0.9	1.1	1.0

Source: Company, ICICI Direct Research

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Sell: <-15%



Pankaj Pandey

Head – Research

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

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