

March 28, 2024

Analyst Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		HOLD	
Target Price	603		589	
Sales (Rs. m)	25,109	28,235	24,617	27,390
% Chng.	2.0	3.1		
EBITDA (Rs. m)	3,591	4,461	3,619	4,300
% Chng.	(0.8)	3.7		
EPS (Rs.)	13.3	18.3	13.4	17.6
% Chng.	(1.1)	3.7		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	20,823	22,524	25,109	28,235
EBITDA (Rs. m)	3,138	2,388	3,591	4,461
Margin (%)	15.1	10.6	14.3	15.8
PAT (Rs. m)	1,846	687	1,880	2,592
EPS (Rs.)	13.0	4.8	13.3	18.3
Gr. (%)	175.3	(62.8)	173.8	37.9
DPS (Rs.)	4.5	3.0	4.0	4.0
Yield (%)	1.0	0.6	0.9	0.9
RoE (%)	30.7	10.3	24.7	27.9
RoCE (%)	25.9	13.4	21.9	26.1
EV/Sales (x)	3.3	3.1	2.7	2.4
EV/EBITDA (x)	21.9	29.2	19.2	15.3
PE (x)	35.7	96.0	35.1	25.4
P/BV (x)	10.3	9.5	8.0	6.4

Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.723 / Rs.449
Sensex / Nifty	72,996 / 22,124
Market Cap	Rs.66bn / \$ 792m
Shares Outstanding	142m
3M Avg. Daily Value	Rs.419.49m

Shareholding Pattern (%)

Promoter's	51.77
Foreign	7.49
Domestic Institution	12.84
Public & Others	27.91
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(17.1)	(29.8)	(17.7)
Relative	(17.0)	(36.4)	(35.0)

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Turnaround in sight

Quick Pointers:

- Aiming for double digit revenue growth from 4QFY24E.
- Aspiration is to achieve 15% EBITDA margin from 2HFY25E onwards.

We attended the analyst meet of VIP industries (VIP) wherein management unveiled plans on product innovation (new launches were on display; check exhibit 5 and 6), premiumization, leadership and supply chain management. On fruition, the revival strategy is likely to result in market share gains while EBITDA margin is likely to improve to 15% from 2HFY25E once warehousing, freight and accelerated spends on e-com stabilize. We broadly maintain our estimates and expect sales/EBITDA CAGR of 12%/37% over FY24E-FY26E on the back of said revival plan. We upgrade VIP to a BUY (earlier HOLD) with a revised TP of Rs603 (earlier Rs589) after assigning a multiple of 33x (earlier 38x) as we roll forward to FY26E. Our upgrade is driven by 30% correction over last 6 months and the ensuing valuation comfort (VIP trades at ~17% discount to its LPA history of past 10 years).

Leadership refurbish can drive change: Over 50% of the senior management team at VIP is either new or is handling a new portfolio (for more details refer exhibit 4). Further, most brands now have separate head. Decentralization can lead to improvement in business especially in premium segment (Carlton & Caprese) as customer is not just fixated on price and positioning/branding is equally important.

Rising focus on premiumization: VIP has 2 brands, Carlton & Caprese, in the premium category. Carlton is set to unveil its upscale product line, priced between Rs10K-18K soon. After onboarding inaugural brand head, the plan is to establish 25 exclusive Carlton stores and 16 airport outlets by FY25E. Similarly, new designs for Caprese are also expected to be launched soon while Kiara Advani has been roped-in as brand ambassador. We believe renewed focus on premiumization would not only act as a key margin lever but also drive growth.

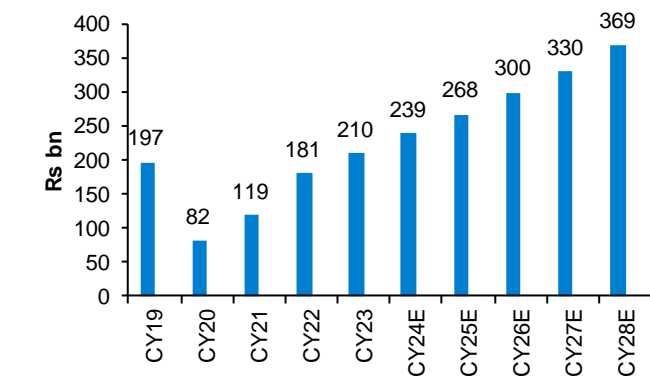
Supply chain optimization on the cards: VIP has inventory of ~Rs9bn with a higher SL share that is expected to be liquidated in near term. This is likely to optimize warehousing and freight cost. Further, larger part of inventory is less than 1-year old and probability of obsolescence is low given SL has fewer design imprints.

Revolutionizing with product innovation: A new dedicated wedding set of 5 pieces was unveiled whereas in Dec-23 Skybags debuted with lightweight luggage. In Jan-24, Skybags also launched an innovative backpack product like the biker's range equipped with a retractable helmet socket. Aristocrat is also targeting tier 2-3 cities with new launches. In addition, 102 new SKUs have been launched in backpacks recently. We believe efforts to drive innovation and strengthening partner connect (2 dealer-distributor meets and one backpack roadshow was conducted recently) is likely to address growth challenges.

Other key highlights from the analyst meet

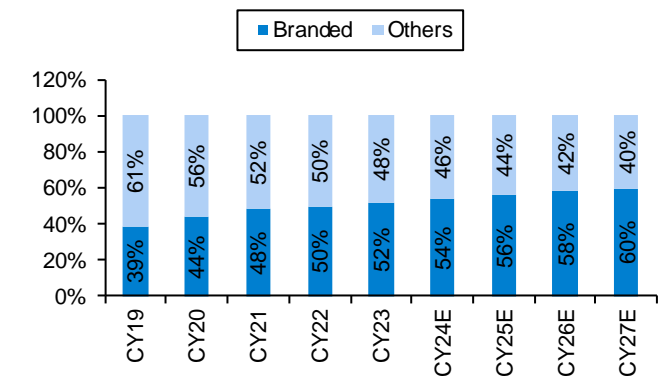
- Top 25 dealers contribute ~75% to the business.
- An international award winning designer has been on-boarded for portfolio upgrade.
- Currently, there are 500+ operational EBOs, with a strategic focus on opening stores in top 14 cities during FY25E. Of these, 30% are owned, and the remaining are franchised. Going forward, new store openings will be franchised.
- For HL expansion, distributor manufacturing route (outsourcing) is adopted as capacity utilization is closer to 90%. There are plans to start new capacity in the Eastern region, specifically in Patna.
- ~40-50 low-performing SKUs have been discontinued as part of a monthly review mechanism.
- A&P spends is likely to remain at ~7-8% of sales.
- Bangladesh facility had initially employed 8,000 people. Following recent workforce reduction amid softening SL demand, current headcount stands at ~4,000. While retrenchment is likely to result in severance pay outgo in near term, employee cost escalation is likely to be lower in FY25E.
- Demand for luggage in the South region is better than regions.

Exhibit 1: Luggage industry to grow at a CAGR of 12% over CY24E-CY28E



Source: Company, Euromonitor & internal estimates

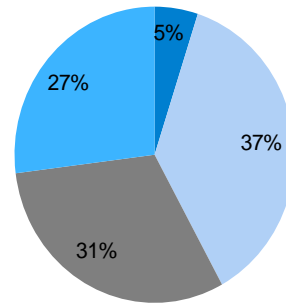
Exhibit 2: Branded players share to increase to 60% in CY27E



Source: Company, Euromonitor & internal estimates

Exhibit 3: Premium & mid-premium category forms 42% of industry

■ Premium ■ Mid-premium ■ Entry ■ Unorganized



Source: Company, PRICE projections based on ICE 360 surveys

Exhibit 4: Brief profile of the current senior management team

Name	Designation	Years of experience
Akash Shukla	Vice President – Human Resources	20
Anjan Mohanty	Chief Executive Officer – Bangladesh	25
Anup Sur	Vice President – Demand Planning & IT & Systems	26
Ashish Saha	Executive Director & Sr. Vice President – India Manufacturing & New Projects	44
Dipti Shah Jagdev	Vice President – Marketing	20
Manish Desai	Chief Financial Officer	25
MVH Sastry	Vice President - Procurement & Sourcing	19
Praful Gupta	Vice President - Sales & CRM	24
S.Somasundaram	Vice President – Strategic Projects (Quality, Supply Planning & Fulfillment)	29
Sunil Kolhe	Sr. Vice President – Design & New Product Development	36
Sushant Junnarkar	Vice President - E-commerce & Caprese	23

Source: Company, PL

Exhibit 5: Recent collection of newly launched product



MAESTRO



VIRTUS

Source: Company, PL

Exhibit 6: Glimpse of wedding collection



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	20,823	22,524	25,109	28,235
YoY gr. (%)	61.5	8.2	11.5	12.4
Cost of Goods Sold	10,188	10,429	11,626	12,988
Gross Profit	10,635	12,096	13,484	15,247
Margin (%)	51.1	53.7	53.7	54.0
Employee Cost	2,356	2,748	2,963	3,106
Other Expenses	5,141	6,960	6,930	7,680
EBITDA	3,138	2,388	3,591	4,461
YoY gr. (%)	117.3	(23.9)	50.4	24.2
Margin (%)	15.1	10.6	14.3	15.8
Depreciation and Amortization	737	969	1,055	1,129
EBIT	2,401	1,419	2,536	3,332
Margin (%)	11.5	6.3	10.1	11.8
Net Interest	285	496	276	184
Other Income	171	113	151	175
Profit Before Tax	1,965	778	2,410	3,323
Margin (%)	9.4	3.5	9.6	11.8
Total Tax	442	349	530	731
Effective tax rate (%)	22.5	44.9	22.0	22.0
Profit after tax	1,523	429	1,880	2,592
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,846	687	1,880	2,592
YoY gr. (%)	175.7	(62.8)	173.8	37.9
Margin (%)	8.9	3.0	7.5	9.2
Extra Ord. Income / (Exp)	(322)	(258)	-	-
Reported PAT	1,523	429	1,880	2,592
YoY gr. (%)	127.6	(71.8)	338.3	37.9
Margin (%)	7.3	1.9	7.5	9.2
Other Comprehensive Income	(132)	23	-	-
Total Comprehensive Income	1,392	452	1,880	2,592
Equity Shares O/s (m)	142	142	142	142
EPS (Rs)	13.0	4.8	13.3	18.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	5,285	6,604	7,923	9,298
Tangibles	5,190	6,490	7,790	9,140
Intangibles	96	115	134	159
Acc: Dep / Amortization	2,194	3,162	4,217	5,346
Tangibles	2,113	3,062	4,095	5,202
Intangibles	81	100	121	144
Net fixed assets	3,092	3,442	3,707	3,952
Tangibles	3,077	3,428	3,694	3,937
Intangibles	15	15	13	15
Capital Work In Progress	153	153	153	153
Goodwill	-	-	-	-
Non-Current Investments	222	280	311	349
Net Deferred tax assets	294	294	294	294
Other Non-Current Assets	268	265	278	293
Current Assets				
Investments	225	225	225	225
Inventories	5,871	7,097	6,535	7,117
Trade receivables	2,554	3,086	3,577	4,023
Cash & Bank Balance	365	147	540	708
Other Current Assets	1,005	1,126	1,205	1,299
Total Assets	14,153	16,254	16,980	18,586
Equity				
Equity Share Capital	283	283	283	283
Other Equity	6,134	6,676	7,988	10,013
Total Networth	6,417	6,959	8,272	10,296
Non-Current Liabilities				
Long Term borrowings	1,299	1,299	1,299	1,299
Provisions	156	158	176	198
Other non current liabilities	0	2	3	3
Current Liabilities				
ST Debt / Current of LT Debt	2,224	2,914	2,414	1,914
Trade payables	3,087	3,826	3,784	3,868
Other current liabilities	950	1,047	980	948
Total Equity & Liabilities	14,153	16,254	16,980	18,586

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	1,965	1,036	2,410	3,323
Add. Depreciation	737	969	1,055	1,129
Add. Interest	285	496	276	184
Less Financial Other Income	171	113	151	175
Add. Other	243	258	-	-
Op. profit before WC changes	3,230	2,758	3,741	4,636
Net Changes-WC	(962)	(1,037)	(113)	(1,061)
Direct tax	(519)	(326)	(530)	(731)
Net cash from Op. activities	1,749	1,395	3,098	2,844
Capital expenditures	(1,058)	(800)	(500)	(350)
Interest / Dividend Income	9	-	-	-
Others	204	(582)	(860)	(1,075)
Net Cash from Inv. activities	(845)	(1,382)	(1,360)	(1,425)
Issue of share cap. / premium	-	-	-	-
Debt changes	583	690	(500)	(500)
Dividend paid	(638)	(426)	(568)	(568)
Interest paid	(164)	(496)	(276)	(184)
Others	(527)	-	-	-
Net cash from Fin. activities	(746)	(231)	(1,344)	(1,251)
Net change in cash	158	(218)	393	168
Free Cash Flow	680	595	2,598	2,494

Source: Company Data, PL Research

Key Financial Metrics

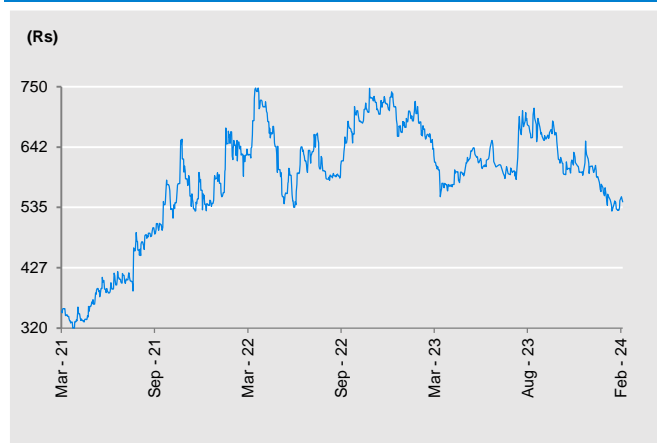
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	13.0	4.8	13.3	18.3
CEPS	18.2	11.7	20.7	26.3
BVPS	45.3	49.1	58.4	72.7
FCF	4.8	4.2	18.3	17.6
DPS	4.5	3.0	4.0	4.0
Return Ratio(%)				
RoCE	25.9	13.4	21.9	26.1
ROIC	22.2	14.7	21.1	24.0
RoE	30.7	10.3	24.7	27.9
Balance Sheet				
Net Debt : Equity (x)	0.5	0.6	0.4	0.2
Net Working Capital (Days)	94	103	92	94
Valuation(x)				
PER	35.7	96.0	35.1	25.4
P/B	10.3	9.5	8.0	6.4
P/CEPS	25.5	39.8	22.5	17.7
EV/EBITDA	21.9	29.2	19.2	15.3
EV/Sales	3.3	3.1	2.7	2.4
Dividend Yield (%)	1.0	0.6	0.9	0.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	4,506	6,361	5,461	5,464
YoY gr. (%)	26.6	7.7	6.1	3.8
Raw Material Expenses	1,899	3,214	2,430	2,414
Gross Profit	2,607	3,147	3,031	3,050
Margin (%)	57.9	49.5	55.5	55.8
EBITDA	643	806	529	523
YoY gr. (%)	97.3	(21.5)	(26.1)	(28.4)
Margin (%)	14.3	12.7	9.7	9.6
Depreciation / Depletion	196	209	238	266
EBIT	447	597	291	257
Margin (%)	9.9	9.4	5.3	4.7
Net Interest	84	108	124	152
Other Income	45	26	26	27
Profit before Tax	(64)	774	193	132
Margin (%)	(1.4)	12.2	3.5	2.4
Total Tax	(22)	196	60	60
Effective tax rate (%)	33.6	25.4	31.1	45.8
Profit after Tax	(43)	578	133	72
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(515)	320	133	72
YoY gr. (%)	(515.4)	(40.9)	(69.4)	(83.8)
Margin (%)	(11.4)	5.0	2.4	1.3
Extra Ord. Income / (Exp)	(472)	(258)	-	-
Reported PAT	(43)	578	133	72
YoY gr. (%)	(134.4)	(16.4)	(69.4)	(83.8)
Margin (%)	(0.9)	9.1	2.4	1.3
Other Comprehensive Income	(44)	2	(2)	24
Total Comprehensive Income	(87)	579	131	95
Avg. Shares O/s (m)	142	142	142	142
EPS (Rs)	(3.6)	2.3	0.9	0.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Feb-24	Hold	589	539
2	05-Jan-24	Hold	674	588
3	31-Oct-23	Hold	689	613
4	09-Oct-23	Accumulate	721	668
5	04-Aug-23	Accumulate	707	598
6	07-Jul-23	BUY	866	610
7	13-Jun-23	BUY	913	621
8	09-May-23	BUY	900	623
9	11-Apr-23	BUY	969	602

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	820	762
2	Indian Railway Catering and Tourism Corporation	Hold	825	929
3	Inox Leisure	BUY	587	502
4	InterGlobe Aviation	Accumulate	3,961	3,482
5	Lemon Tree Hotels	BUY	155	138
6	Navneet Education	BUY	182	153
7	Nazara Technologies	Hold	833	871
8	PVR Inox	Accumulate	1,719	1,455
9	S Chand and Company	BUY	357	262
10	Safari Industries (India)	BUY	2,271	2,045
11	V.I.P. Industries	Hold	589	539
12	Zee Entertainment Enterprises	Hold	167	155

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

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