

August 7, 2024

Q1FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		HOLD	
Target Price	454		529	
Sales (Rs. m)	24,057	26,437	24,335	26,764
% Chng.	(1.1)	(1.2)		
EBITDA (Rs. m)	2,574	4,018	3,358	4,122
% Chng.	(23.4)	(2.5)		
EPS (Rs.)	6.2	15.1	10.9	16.0
% Chng.	(43.2)	(5.5)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	20,823	22,450	24,057	26,437
EBITDA (Rs. m)	3,138	1,936	2,574	4,018
Margin (%)	15.1	8.6	10.7	15.2
PAT (Rs. m)	1,846	285	882	2,149
EPS (Rs.)	13.0	2.0	6.2	15.1
Gr. (%)	175.3	(84.6)	209.2	143.6
DPS (Rs.)	4.5	2.0	2.0	2.0
Yield (%)	1.0	0.4	0.4	0.4
RoE (%)	30.7	4.3	12.5	25.9
RoCE (%)	25.9	7.4	10.2	20.6
EV/Sales (x)	3.2	3.2	2.9	2.6
EV/EBITDA (x)	21.3	37.4	27.2	17.0
PE (x)	34.6	224.6	72.6	29.8
P/BV (x)	10.0	9.4	8.7	6.9

Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.723 / Rs.429
Sensex / Nifty	79,468 / 24,298
Market Cap	Rs.64bn/ \$ 763m
Shares Outstanding	142m
3M Avg. Daily Value	Rs.252.66m

Shareholding Pattern (%)

Promoter's	51.75
Foreign	7.32
Domestic Institution	13.76
Public & Others	27.17
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.3)	(16.9)	(27.7)
Relative	(5.7)	(24.5)	(40.0)

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Margins succumb amid inventory liquidation

Quick Pointers:

- GM nosedives to 44.3% on account of SL liquidation and falling share of production at Bangladesh.

We cut our FY25E/FY26E EPS estimates by 43%/6% as we re-align our GM assumptions given SL liquidation exercise is underway. VIP had ~Rs3bn of slow-moving SL inventory as of FY24 and has managed to liquidate Rs800mn in 1QFY25 via discounting, resulting in margin erosion. We believe full liquidation will take 1-2 quarters, and accordingly, GM is likely to remain under pressure in near term. In addition, warehousing, freight and interest cost will also remain elevated until the liquidation exercise is complete. Apart from margin headwinds, growth challenges are likely to aggravate given the increasing prevalence of D2C brands and rising competitive intensity, especially in the mass segment. We expect sales CAGR of 8.5% over the next 2 years with EBITDA margin of 10.7%/15.2% in FY25E/FY26E. Retain HOLD on the stock with a TP of Rs454 (earlier Rs529) as we cut our target multiple to 30x (earlier 33x) given rising concerns on growth and margin recovery.

Top-line remains flat: Top-line increased 0.4% YoY to Rs6,389mn (PLe of Rs6,489mn). Backpacks/handbags contributed 15%/3% to the top-line.

GM falls to 44.3%: Gross profit decreased 10.0% YoY to Rs2,832mn (PLe of Rs3,179mn) with margin of 44.3% (PLe of 49.0%), primarily due to the heavy discounts offered to liquidate the SL inventory.

EBITDA down 38.8% YoY: EBITDA decreased 38.8% YoY to Rs493mn (PLe Rs698mn) with a margin of 7.7% (PLe of 10.8%) led by the fall in gross contribution.

Adjusted PAT drops 87.4% YoY: Adjusted PAT fell 87.4% YoY to Rs40mn (PLe of Rs230mn) led by weaker performance at the operating level and 71.5% YoY rise in interest cost to Rs185mn.

Con-call highlights: **1)** VIP gained 2% market share in 1QFY25. **2)** Inventory declined by ~Rs1,180mn, including Rs800mn of SL inventory. **3)** HL forms 56% of sales. **4)** VIP has hired BCG to help improve the operating margin profile. **5)** Despite the political unrest in Bangladesh, VIP's factories were shut for only 3 days. **6)** Total ~50 lakh pieces were sold in 1QFY25. **7)** Employee cost was lower due to reversal of provision in performance incentives. **8)** SL upright capacity in Bangladesh will be diverted, in order to increase production of duffle bags & backpacks. **9)** Gross/EBITDA margin is expected to reach 50%/15% in 4QFY25. **10)** VIP received Rs50mn towards fire insurance claim in Jul'24. **11)** Volume growth in 1QFY25 for VIP/Skybags/Aristocrat was 7%/15%/18%. **12)** VIP aims to reduce debt to Rs2,500mn by the end of FY25E. **13)** There is a 10% gap in GM between the premium brands and Aristocrat. **14)** Capacity utilization at the Bangladesh plant is 54%.

Exhibit 1: Q1FY25 Result Overview - Consolidated (Rs mn)

Y/e March	1QFY25	1QFY24	YoY gr.	4QFY24	QoQ gr.	FY25E	FY24	YoY gr.
Net sales	6,389	6,361	0.4%	5,163	23.7%	24,057	22,450	7.2%
Total raw material cost	3,557	3,214	10.7%	2,579	38.0%	12,678	10,637	19.2%
<i>As a % of sales</i>	<i>55.7%</i>	<i>50.5%</i>		<i>49.9%</i>		<i>52.7%</i>	<i>47.4%</i>	
Gross Profit	2,832	3,147	-10.0%	2,585	9.6%	11,379	11,813	-3.7%
<i>Gross margin</i>	<i>44.3%</i>	<i>49.5%</i>		<i>50.1%</i>		<i>47.3%</i>	<i>52.6%</i>	
Employee expenses	589	663	-11.2%	683	-13.8%	2,526	2,698	-6.4%
<i>As a % of sales</i>	<i>9.2%</i>	<i>10.4%</i>		<i>13.2%</i>		<i>10.5%</i>	<i>12.0%</i>	
Other expenses	1,750	1,678	4.3%	1,824	-4.0%	6,279	7,180	-12.5%
<i>As a % of sales</i>	<i>27.4%</i>	<i>26.4%</i>		<i>35.3%</i>		<i>26.1%</i>	<i>32.0%</i>	
EBITDA	493	806	-38.8%	78	529.8%	2,574	1,936	33.0%
<i>EBITDA margin</i>	<i>7.7%</i>	<i>12.7%</i>		<i>1.5%</i>		<i>10.7%</i>	<i>8.6%</i>	
Depreciation	292	209	39.8%	282	3.4%	1,083	995	8.8%
EBIT	201	597	-66.3%	(204)	NM	1,492	941	58.6%
<i>EBIT margin</i>	<i>3.1%</i>	<i>9.4%</i>		<i>NM</i>		<i>6.2%</i>	<i>4.2%</i>	
Interest cost	185	108	71.5%	167	10.4%	505	550	-8.2%
Other income	21	26	-22.0%	39	-46.9%	144	118	22.8%
PBT	37	516	-92.8%	(333)	NM	1,131	508	122.6%
Exceptional items	-	(258)	NM	-		-	(258)	NM
Tax expenses	(3)	196	NM	(94)	NM	249	223	11.6%
<i>Tax rate</i>	<i>NM</i>	<i>25.4%</i>		<i>NM</i>		<i>22.0%</i>	<i>43.9%</i>	
PAT	40	578	-93.0%	(239)	NM	882	543	62.4%
<i>PAT margin</i>	<i>0.6%</i>	<i>9.1%</i>		<i>NM</i>		<i>3.7%</i>	<i>2.4%</i>	
EPS (Rs)	0.3	4.1	-93.1%	(1.7)	NM	6.2	3.8	61.9%
Adjusted PAT	40	320	-87.4%	(239)	NM	882	285	209.2%
<i>Adjusted PAT margin</i>	<i>0.6%</i>	<i>5.0%</i>		<i>NM</i>		<i>3.7%</i>	<i>1.3%</i>	
Adjusted EPS (Rs)	0.3	2.3	-87.4%	(1.7)	NM	6.2	2.0	209.2%

Source: Company, PL

Exhibit 2: Sales & profitability profile of Bangladesh operations

Particulars (Rs mn)	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	1Q FY25	FY23	FY24	FY25E	FY26E
Sales	530	770	1,250	1,610	1,862	1,363	1,693	1,750	1,360	1,829	2,061	885	612	6,667	6,135	3,067	3,681
PAT	(4)	(11)	86	33	220	166	295	(48)	146	238	266	(152)	(94)	633	498	153	258
<i>PAT margin</i>	<i>NM</i>	<i>NM</i>	<i>6.9%</i>	<i>2.0%</i>	<i>11.8%</i>	<i>12.2%</i>	<i>17.4%</i>	<i>NM</i>	<i>10.7%</i>	<i>13.0%</i>	<i>12.9%</i>	<i>NM</i>	<i>NM</i>	<i>9.5%</i>	<i>8.1%</i>	<i>5.0%</i>	<i>7.0%</i>
<i>Bangladesh's sales as % of total sales</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>32.2%</i>	<i>38.8%</i>	<i>21.4%</i>	<i>33.5%</i>	<i>37.7%</i>	<i>17.1%</i>	<i>9.6%</i>	<i>32.0%</i>	<i>27.3%</i>	<i>12.8%</i>	<i>13.9%</i>
Standalone PAT#	35	236	276	91	678	322	572	(113)	459	(24)	(49)	(106)	45	1,609	280.2		
<i>Standalone PAT margin</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>11.1%</i>	<i>NM</i>	<i>7.4%</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>0.7%</i>	<i>8.0%</i>	<i>1.3%</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	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Gross margin	50.9%	47.1%	48.9%	53.3%	49.9%	48.1%	49.4%	57.9%	49.5%	55.5%	55.8%	50.1%	44.3%
EBITDA margin	6.3%	12.7%	14.4%	9.2%	17.4%	13.9%	13.9%	14.3%	12.7%	9.7%	9.6%	1.5%	7.7%

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

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	20,823	22,450	24,057	26,437
YoY gr. (%)	61.5	7.8	7.2	9.9
Cost of Goods Sold	10,188	10,637	12,678	12,690
Gross Profit	10,635	11,813	11,379	13,747
Margin (%)	51.1	52.6	47.3	52.0
Employee Cost	2,356	2,698	2,526	2,776
Other Expenses	5,141	7,180	6,279	6,953
EBITDA	3,138	1,936	2,574	4,018
YoY gr. (%)	117.3	(38.3)	33.0	56.1
Margin (%)	15.1	8.6	10.7	15.2
Depreciation and Amortization	737	995	1,083	1,137
EBIT	2,401	941	1,492	2,882
Margin (%)	11.5	4.2	6.2	10.9
Net Interest	285	550	505	291
Other Income	171	118	144	164
Profit Before Tax	1,965	766	1,131	2,755
Margin (%)	9.4	3.4	4.7	10.4
Total Tax	442	223	249	606
Effective tax rate (%)	22.5	29.1	22.0	22.0
Profit after tax	1,523	543	882	2,149
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,846	285	882	2,149
YoY gr. (%)	175.7	(84.5)	209.2	143.6
Margin (%)	8.9	1.3	3.7	8.1
Extra Ord. Income / (Exp)	(322)	258	-	-
Reported PAT	1,523	543	882	2,149
YoY gr. (%)	127.6	(64.4)	62.4	143.6
Margin (%)	7.3	2.4	3.7	8.1
Other Comprehensive Income	(132)	21	-	-
Total Comprehensive Income	1,392	564	882	2,149
Equity Shares O/s (m)	142	142	142	142
EPS (Rs)	13.0	2.0	6.2	15.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	5,285	8,275	9,594	10,969
Tangibles	5,190	8,170	9,470	10,820
Intangibles	96	105	124	149
Acc: Dep / Amortization	2,194	2,959	4,042	5,178
Tangibles	2,113	2,869	3,930	5,044
Intangibles	81	90	111	134
Net fixed assets	3,092	5,316	5,552	5,790
Tangibles	3,077	5,301	5,540	5,776
Intangibles	15	15	12	15
Capital Work In Progress	153	144	144	144
Goodwill	-	-	-	-
Non-Current Investments	222	299	307	336
Net Deferred tax assets	294	253	227	205
Other Non-Current Assets	268	331	360	372
Current Assets				
Investments	225	11	11	11
Inventories	5,871	9,157	6,921	6,664
Trade receivables	2,554	3,276	3,427	3,766
Cash & Bank Balance	365	463	415	493
Other Current Assets	1,005	1,272	1,203	1,269
Total Assets	14,153	20,665	18,712	19,208
Equity				
Equity Share Capital	283	284	284	284
Other Equity	6,134	6,495	7,093	8,958
Total Networth	6,417	6,779	7,377	9,242
Non-Current Liabilities				
Long Term borrowings	1,299	2,813	2,813	2,813
Provisions	156	166	168	185
Other non current liabilities	0	1	2	3
Current Liabilities				
ST Debt / Current of LT Debt	2,224	5,899	3,599	2,099
Trade payables	3,087	4,069	3,823	3,984
Other current liabilities	950	928	905	856
Total Equity & Liabilities	14,153	20,665	18,712	19,208

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	1,965	766	1,131	2,755
Add. Depreciation	737	995	1,083	1,137
Add. Interest	285	550	505	291
Less Financial Other Income	171	118	144	164
Add. Other	243	41	-	-
Op. profit before WC changes	3,230	2,352	2,718	4,182
Net Changes-WC	(962)	(3,391)	1,860	(31)
Direct tax	(519)	(278)	(223)	(583)
Net cash from Op. activities	1,749	(1,317)	4,355	3,568
Capital expenditures	(1,058)	(991)	(500)	(350)
Interest / Dividend Income	9	1	-	-
Others	204	230	(814)	(1,065)
Net Cash from Invt. activities	(845)	(760)	(1,314)	(1,415)
Issue of share cap. / premium	-	-	-	-
Debt changes	583	3,518	(2,300)	(1,500)
Dividend paid	(638)	(288)	(284)	(284)
Interest paid	(164)	(330)	(505)	(291)
Others	(527)	(721)	-	-
Net cash from Fin. activities	(746)	2,179	(3,089)	(2,075)
Net change in cash	158	102	(48)	78
Free Cash Flow	680	(2,317)	3,855	3,218

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	13.0	2.0	6.2	15.1
CEPS	18.2	9.0	13.8	23.1
BVPS	45.3	47.8	52.0	65.1
FCF	4.8	(16.3)	27.2	22.7
DPS	4.5	2.0	2.0	2.0
Return Ratio(%)				
RoCE	25.9	7.4	10.2	20.6
ROIC	22.2	9.4	13.8	20.9
RoE	30.7	4.3	12.5	25.9
Balance Sheet				
Net Debt : Equity (x)	0.5	1.2	0.8	0.5
Net Working Capital (Days)	94	136	99	89
Valuation(x)				
PER	34.6	224.6	72.6	29.8
P/B	10.0	9.4	8.7	6.9
P/CEPS	24.8	50.0	32.6	19.5
EV/EBITDA	21.3	37.4	27.2	17.0
EV/Sales	3.2	3.2	2.9	2.6
Dividend Yield (%)	1.0	0.4	0.4	0.4

Source: Company Data, PL Research

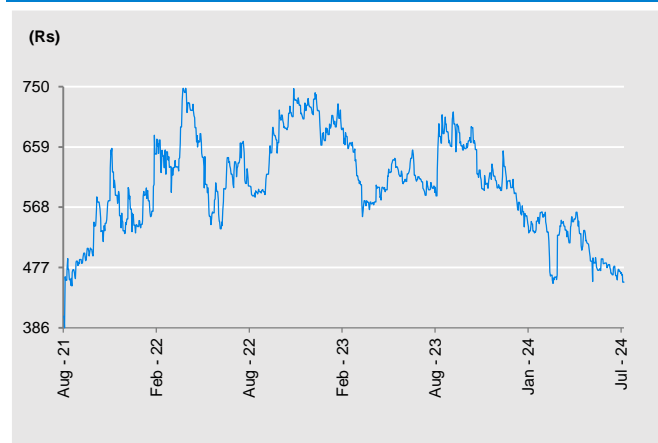
Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	5,461	5,464	5,163	6,389
YoY gr. (%)	6.1	3.8	14.6	0.4
Raw Material Expenses	2,430	2,414	2,579	3,557
Gross Profit	3,031	3,050	2,585	2,832
Margin (%)	55.5	55.8	50.1	44.3
EBITDA	529	523	78	493
YoY gr. (%)	(26.1)	(28.4)	(87.8)	(38.8)
Margin (%)	9.7	9.6	1.5	7.7
Depreciation / Depletion	238	266	282	292
EBIT	291	257	(204)	201
Margin (%)	5.3	4.7	(4.0)	3.1
Net Interest	124	152	167	185
Other Income	26	27	39	21
Profit before Tax	193	132	(333)	37
Margin (%)	3.5	2.4	(6.4)	0.6
Total Tax	60	60	(94)	(3)
Effective tax rate (%)	31.1	45.8	28.2	(8.9)
Profit after Tax	133	72	(239)	40
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	133	72	(239)	40
YoY gr. (%)	(69.4)	(83.8)	(155.6)	(87.4)
Margin (%)	2.4	1.3	(4.6)	0.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	133	72	(239)	40
YoY gr. (%)	(69.4)	(83.8)	460.6	(93.0)
Margin (%)	2.4	1.3	(4.6)	0.6
Other Comprehensive Income	(2)	24	(2)	(62)
Total Comprehensive Income	131	95	(241)	(22)
Avg. Shares O/s (m)	142	142	142	142
EPS (Rs)	0.9	0.5	(1.7)	0.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	Hold	529	481
2	11-May-24	Hold	557	528
3	12-Apr-24	BUY	603	540
4	28-Mar-24	BUY	603	465
5	01-Feb-24	Hold	589	539
6	05-Jan-24	Hold	674	588
7	31-Oct-23	Hold	689	613
8	09-Oct-23	Accumulate	721	668

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	887	836
2	Imagicaaworld Entertainment	BUY	116	79
3	Indian Railway Catering and Tourism Corporation	Reduce	811	1,026
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	Accumulate	4,958	4,493
6	Lemon Tree Hotels	BUY	162	148
7	Navneet Education	Accumulate	167	156
8	Nazara Technologies	Hold	878	919
9	PVR Inox	Hold	1,474	1,430
10	S Chand and Company	BUY	307	245
11	Safari Industries (India)	BUY	2,364	2,166
12	V.I.P. Industries	Hold	529	481
13	Zee Entertainment Enterprises	Hold	157	149

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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