

September 30, 2022

Management Meet Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,020		857	
Sales (Rs. m)	20,226	23,356	18,872	21,608
% Chng.	7.2	8.1		
EBITDA (Rs. m)	3,620	4,554	3,529	4,322
% Chng.	2.6	5.4		
EPS (Rs.)	14.9	20.1	14.7	19.1
% Chng.	1.2	5.4		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	12,895	20,226	23,356	26,827
EBITDA (Rs. m)	1,444	3,620	4,554	5,553
Margin (%)	11.2	17.9	19.5	20.7
PAT (Rs. m)	669	2,102	2,841	3,574
EPS (Rs.)	4.7	14.9	20.1	25.3
Gr. (%)	NA	214.1	35.1	25.8
DPS (Rs.)	2.5	3.0	3.0	3.0
Yield (%)	0.4	0.5	0.5	0.5
RoE (%)	12.4	32.4	33.1	31.4
RoCE (%)	8.6	31.5	35.7	35.1
EV/Sales (x)	7.3	4.6	4.0	3.4
EV/EBITDA (x)	65.3	25.8	20.3	16.5
PE (x)	137.2	43.7	32.3	25.7
P/BV (x)	16.4	12.4	9.4	7.1

Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.775 / Rs.485
Sensex / Nifty	56,410 / 16,818
Market Cap	Rs.92bn/ \$ 1,123m
Shares Outstanding	142m
3M Avg. Daily Value	Rs.273.01m

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	10.2	(12.9)	29.8
Relative	13.3	(10.5)	36.7

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Multiple growth levers at play

Recently, we hosted VIP Industries for a roadshow wherein management highlighted plans to 1) scale brand Caprese by 5x 2) increase exports share to 15% and 3) double the number of EBOs to ~1,000 over next 3 years. The upstream transformational journey continues with plans to further backward integrate into manufacturing of trolleys, wheels and locks (forms ~35-50% of the cost). We believe benefits of owning the value chain (share of in-house manufacturing to be at ~75-80% in FY23E) will start reflecting soon, as input cost pressure has started stabilizing. On the demand front, outlook continues to remain robust and VIP is on track to achieve Rs20bn in top-line with an EBITDA margin of ~18-19% in FY23E. We increase our FY23E/FY24E EPS estimates by 1%/5% and introduce FY25E EPS of Rs25. Amid emergence of new twin levers (handbags and exports) we expect sales/PAT CAGR of 15%/26% over FY23-25E. Retain BUY with a revised TP of Rs1,020 (45x Sep-24 EPS; no change in target multiple but we roll forward).

Aims to scale Caprese by 5x over next 3 years: VIP aims to scale its handbags business by 5x over the next 3 years. Brand Caprese, was launched in 2013 but VIP was unable to achieve desired scale (~Rs900mn of top-line with 7% sales contribution in FY22) given 1) fragmented nature of the market (largely unorganized) 2) stiff competition and 3) challenges in distribution. However, in order to scale the business from here on: -

- A new business head has been hired
- Tara Sutaria has been roped in as brand ambassador
- A new collection in collaboration with Manish Malhotra will be launched around Diwali to woo customers
- Alternative marketing channels will be explored (currently >60% of the business is online)
- Premium products will be launched (price point is set to expand with upper end of the range being as high as Rs10K).

Nonetheless, we remain conservative and expect 30% sales CAGR in Caprese over FY23-25E, as market is not only highly fragmented but also characterized with stiff competition.

Export share to rise to 15% in 3 years: Exports/international business hold a strong potential, as post pandemic most countries are looking to de-risk supply chain from China. Leveraging on this opportunity, management is targeting 15% revenue contribution from exports in next 3 years (~6% contribution in 1QFY23) with a view to expand its geographical reach. Additionally, VIP is also evaluating white label B2B exports for certain large retailers in international markets.

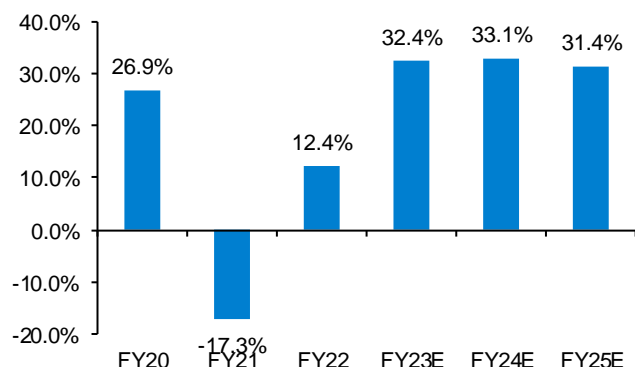
Plans to end FY23E with 500 EBOs: VIP had 376 EBOs as of FY22 and intends to reach the 500 mark in FY23E with plans of doubling the count over next 3 years. Most of new EBOs will be opened on franchise model targeting smaller towns. Strategy to expand via franchise route not only results in NIL rental commitments but also brings in higher throughput, as owner has active involvement in the franchise model.

Multiple levers in place for margin expansion: GMs have been under pressure over last few quarters due to persistent rise in RMs and freight cost. However, key RMs like PP, PC, and nylon have declined by ~20% odd on sequential basis. Similarly, freight cost is also down by >75% from peak levels. Consequently, we expect GM of 53.2% in FY24E and 53.7% in FY25E, as full benefits of owning the manufacturing value chain will start getting reflected over next few months.

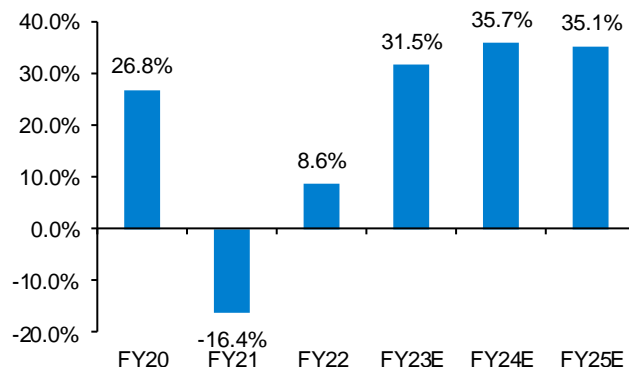
All Future Group stores to be operational by December/March: Future Group (now to be operated by Reliance) accounts for ~15% of revenues and out of 430 stores across banners, 44 were operational in 1QFY23. All stores are expected to open by Dec-Mar which is likely to aid revenue contribution from modern trade segment.

Other key takeaways:

- Subsidy given to Chinese luggage players has been withdrawn and the dragon nation is now moving towards manufacturing other value-added products beyond luggage. This presents opportunity for other players to capture export demand share of China.
- Capacity utilization in Bangladesh is ~85-90% and VIP employs ~4,700 people in the country.
- GM of mass brand Aristocrat is roughly 10% lower than VIP/Skybags.
- PP is roughly 40% cheaper than PC, but is fully recyclable.
- A&P spends will remain in the range of 5-5.5%. However, the plan is to adopt influencer marketing strategies rather than rope in brand ambassadors as was the case in past.
- Roughly 10% of sales is from EBOs.
- GM on handbags is higher than luggage/backpacks.
- SL sales that happens through CSD channel is typically outsourced.
- VIP now has an in-house design (40 people) and quality control team.
- Out of HL sales, ~40% is PP and ~60% PC.
- Balance insurance money (Rs150mn received in 1QFY23) is expected to be received in 4QFY23E.

Exhibit 1: RoE to be 31.4% in FY25E


Source: Company, PL

Exhibit 2: RoCE to be 35.1% in FY25E


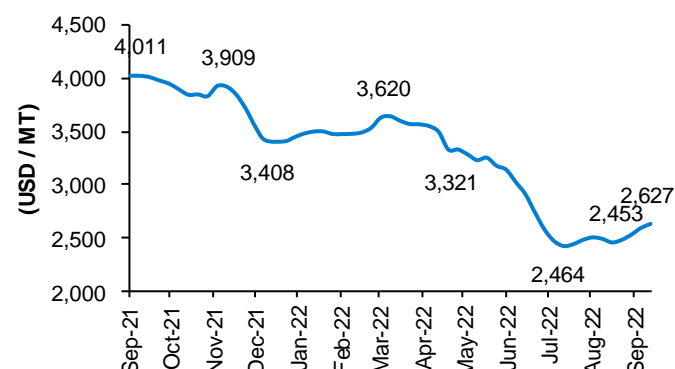
Source: Company, PL

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

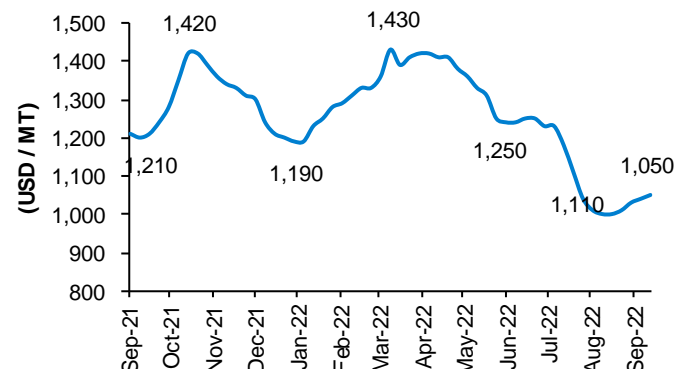
Particulars	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20*	2Q FY20*	3Q FY20*	4Q FY20*	1Q FY21	2Q FY21	3Q FY21	4Q FY21	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23
Gross margin	50.3%	50.8%	47.7%	47.5%	50.4%	53.3%	53.2%	57.6%	42.3%	38.7%	38.4%	43.8%	50.9%	47.1%	48.9%	53.3%	49.9%
EBITDA margin	18.6%	12.7%	8.8%	9.1%	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

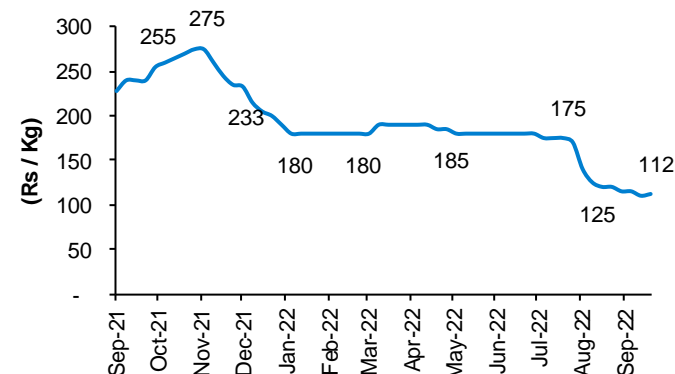
*Ind-AS adjusted EBITDA margin

Exhibit 4: PC prices down 22% QoQ


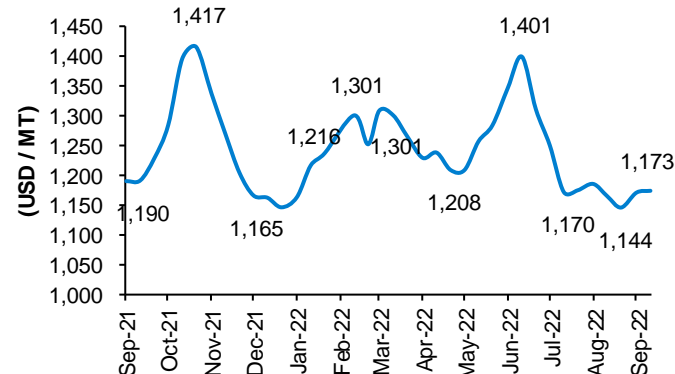
Source: Company, PL Note: PC prices are of Chinese index

Exhibit 5: PP prices down 19% QoQ


Source: Company, PL Note: PP prices are of SEA index

Exhibit 6: Nylon prices down 23% QoQ


Source: Company, PL Note: Nylon prices are of India index

Exhibit 7: Polyester prices down 8% QoQ


Source: Company, PL Note: Polyester prices are of Chinese index

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	12,895	20,226	23,356	26,827
YoY gr. (%)	108.5	56.9	15.5	14.9
Cost of Goods Sold	6,450	9,769	10,931	12,421
Gross Profit	6,445	10,457	12,425	14,406
Margin (%)	50.0	51.7	53.2	53.7
Employee Cost	1,887	2,427	2,733	3,005
Other Expenses	3,114	4,409	5,138	5,848
EBITDA	1,444	3,620	4,554	5,553
YoY gr. (%)	NA	150.7	25.8	21.9
Margin (%)	11.2	17.9	19.5	20.7
Depreciation and Amortization	700	829	864	939
EBIT	744	2,791	3,690	4,614
Margin (%)	5.8	13.8	15.8	17.2
Net Interest	246	263	234	241
Other Income	364	202	234	268
Profit Before Tax	862	2,881	3,690	4,641
Margin (%)	6.7	14.2	15.8	17.3
Total Tax	192	628	849	1,067
Effective tax rate (%)	22.3	21.8	23.0	23.0
Profit after tax	669	2,252	2,841	3,574
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	669	2,102	2,841	3,574
YoY gr. (%)	NA	214.1	35.1	25.8
Margin (%)	5.2	10.4	12.2	13.3
Extra Ord. Income / (Exp)	-	150	-	-
Reported PAT	669	2,252	2,841	3,574
YoY gr. (%)	NA	236.5	26.1	25.8
Margin (%)	5.2	11.1	12.2	13.3
Other Comprehensive Income	26	(44)	-	-
Total Comprehensive Income	696	2,209	2,841	3,574
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	4.7	14.9	20.1	25.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	5,208	6,123	7,042	8,111
Tangibles	5,118	6,018	6,918	7,968
Intangibles	90	105	124	143
Acc: Dep / Amortization	2,561	3,390	4,254	5,193
Tangibles	2,486	3,299	4,146	5,066
Intangibles	74	91	108	127
Net fixed assets	2,648	2,734	2,788	2,918
Tangibles	2,632	2,719	2,772	2,902
Intangibles	16	14	16	16
Capital Work In Progress	75	75	75	75
Goodwill	-	-	-	-
Non-Current Investments	188	253	291	332
Net Deferred tax assets	205	140	140	140
Other Non-Current Assets	175	196	207	219
Current Assets				
Investments	407	122	122	122
Inventories	5,184	5,098	5,759	6,394
Trade receivables	2,185	3,325	4,031	4,777
Cash & Bank Balance	207	88	895	2,009
Other Current Assets	948	1,011	1,285	1,610
Total Assets	12,302	13,173	15,743	18,768
Equity				
Equity Share Capital	283	283	283	283
Other Equity	5,314	7,098	9,515	12,665
Total Network	5,597	7,381	9,798	12,948
Non-Current Liabilities				
Long Term borrowings	1,370	1,370	1,370	1,370
Provisions	134	142	163	188
Other non current liabilities	1	2	2	3
Current Liabilities				
ST Debt / Current of LT Debt	1,612	385	385	385
Trade payables	2,824	3,048	3,199	2,940
Other current liabilities	733	795	768	872
Total Equity & Liabilities	12,302	13,173	15,743	18,768

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	862	2,731	3,690	4,641
Add. Depreciation	700	829	864	939
Add. Interest	246	263	234	241
Less Financial Other Income	364	202	234	268
Add. Other	(58)	150	-	-
Op. profit before WC changes	1,750	3,973	4,788	5,821
Net Changes-WC	(1,901)	(843)	(1,505)	(1,849)
Direct tax	(86)	(607)	(849)	(1,067)
Net cash from Op. activities	(237)	2,522	2,434	2,905
Capital expenditures	(340)	(500)	(500)	(250)
Interest / Dividend Income	114	-	-	-
Others	1,688	(227)	(469)	(875)
Net Cash from Inv. activities	1,461	(727)	(969)	(1,125)
Issue of share cap. / premium	-	-	-	-
Debt changes	(310)	(1,227)	-	-
Dividend paid	(355)	(424)	(424)	(424)
Interest paid	(147)	(263)	(234)	(241)
Others	(443)	-	-	-
Net cash from Fin. activities	(1,255)	(1,914)	(658)	(666)
Net change in cash	(31)	(119)	807	1,114
Free Cash Flow	(601)	2,022	1,934	2,655

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	4.7	14.9	20.1	25.3
CEPS	9.7	20.7	26.2	31.9
BVPS	39.6	52.2	69.3	91.5
FCF	(4.3)	14.3	13.7	18.8
DPS	2.5	3.0	3.0	3.0
Return Ratio(%)				
RoCE	8.6	31.5	35.7	35.1
ROIC	11.7	27.5	28.9	29.6
RoE	12.4	32.4	33.1	31.4
Balance Sheet				
Net Debt : Equity (x)	0.4	0.2	0.1	0.0
Net Working Capital (Days)	129	97	103	112
Valuation(x)				
PER	137.2	43.7	32.3	25.7
P/B	16.4	12.4	9.4	7.1
P/CEPS	67.1	31.3	24.8	20.4
EV/EBITDA	65.3	25.8	20.3	16.5
EV/Sales	7.3	4.6	4.0	3.4
Dividend Yield (%)	0.4	0.5	0.5	0.5

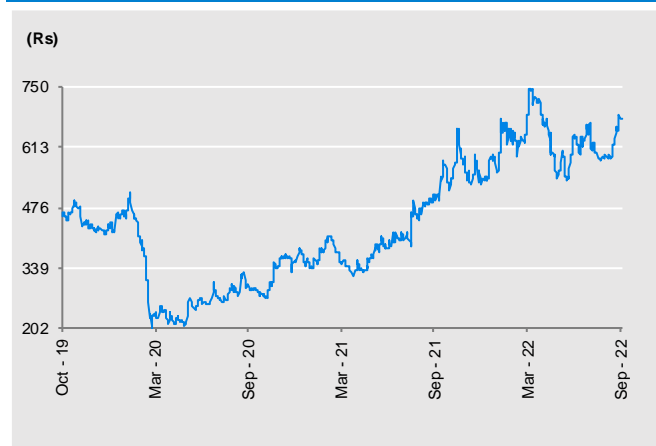
Source: Company Data, PL Research

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	2,038.3
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	2,631.2
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	28-Jul-22	BUY	857	650
2	13-Jul-22	BUY	817	614
3	07-Jul-22	BUY	817	621
4	17-May-22	BUY	817	598
5	08-Apr-22	BUY	825	726
6	02-Feb-22	BUY	769	677
7	10-Jan-22	BUY	726	542
8	25-Nov-21	BUY	726	592
9	31-Oct-21	BUY	621	543
10	07-Oct-21	BUY	573	546

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	635	670
3	Inox Leisure	BUY	699	603
4	Music Broadcast	Hold	24	23
5	Navneet Education	BUY	163	117
6	Nazara Technologies	BUY	1,031	670
7	PVR	BUY	2,330	1,915
8	S Chand and Company	BUY	185	137
9	Safari Industries (India)	BUY	1,766	1,360
10	V.I.P. Industries	BUY	857	650
11	Zee Entertainment Enterprises	BUY	308	242

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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