

VIP Industries

HOLD

Weak sales and margins; Maintain HOLD

Summary

VIP Industries Q3FY24 profitability were below our and street expectations. Net sales increased only by 4% YoY to Rs5.4 bn (lower by 10.7% of our estimates) due to demand slowdown and international business was impacted due to rising supplies from China. Nevertheless, gross margin recovered by 639 bps YoY to 55.5% led by higher realizations and decrease in raw material prices. However, EBITDA margin contracted 430bps YoY to 9.6%. EBITDA fell 28.4% YoY to Rs523mn. Losing market share to other players remains key concern for VIP Industries. We lower our FY24/FY25 EBITDA by 20%/5% and introduce FY26 forecast in this report. We now value the stock at a PER of 32x (earlier 38x FY25) FY26 to derive a target price of Rs525 (earlier Rs612) and maintain our HOLD rating on the stock.

Key Highlights and Investment Rationale

- **Geographical expansion:** The Company increased its presence by increasing its reach in several towns. In 9MFY24 VIP has increased its presence by 11% to 1,361 towns vs. 1,229 towns in FY23.
- **Focus on Premium segment and ECOM Sales:** VIP's focus on mass and premium segments has led to strong growth in Carlton and Aristocrat (they were fastest growing brands for VIP during 9MFY24). Also, Ecommerce sales jumped 50% YoY indicating strong brand presence in e-commerce channels.
- **Outlook:** Captive operations in Bangladesh give VIP a strong advantage on raw material front. However, VIP Industries is unlikely to be a key beneficiary of strong growth in tourism as other players have continued to outgrow VIP in the past few quarters. Frequent changes in key managerial positions also remain a concern for VIP.

TP Rs525

CMP Rs531

Potential upside/downside -1%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(11.0)	(13.4)	(25.5)
Rel to Sensex	(10.4)	(25.3)	(46.0)

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	6	13	16
Consensus	11	17	20
% difference	(44.2)	(22.0)	(21.4)

Key Stock Data

Bloomberg / Reuters	VIP IN /VIPI.BO
Sector	Other Apparels & Accessories
Shares o/s (mn)	142
Market cap. (Rs mn)	75,410
3-m daily average value (Rs mn)	24.7
52-week high / low	Rs726 / 535
Sensex / Nifty	71,752 / 21,726

Shareholding Pattern (%)

Promoters	51.8
FII	7.5
DII	12.8
Public	27.9

Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	12,895	20,823	23,406	25,747	29,352
Change (yoy, %)	108	61	12	10	14
EBITDA	1,444	2,584	2,644	3,605	4,109
Change (yoy, %)	(321)	79	2	36	14
EBITDA Margin(%)	11.2	12.4	11.3	14.0	14.0
Adj.PAT	669	1,315	856	1,849	2,318
EPS (Rs)	5	9	6	13	16
Change (yoy, %)	(168.7)	96.4	(34.9)	116	25
PE(x)	114.9	58.5	89.9	42	33
Dividend Yield (%)	-	0.4	0.6	1	1
EV/EBITDA (x)	53.9	30.3	29.5	21.3	18.3
RoE (%)	12.4	21.9	12.9	25	23
RoCE (%)	9.0	20.8	18	27	27

Source: IDBI Capital Research

Bhavesh Chauhan

bhavesh.chauhan@idbicapital.com
+91-22-2217 1849

Exhibit 1: Quarterly Snapshot (Consolidated)

(Rs mn)

Year-end: March	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Net sales	5,464	5,461	0.1	5,264	3.8
Expenditure	4,942	4,932	0.2	4,534	9.0
EBITDA	523	529	(1.2)	730	(28.4)
<i>EBITDA margin (%)</i>	<i>9.56%</i>	<i>9.68%</i>	<i>-12bps</i>	<i>13.9%</i>	<i>-430bps</i>
Interest	152	124	22.7	66	129.3
Depreciation	266	238	11.5	181	47.1
PBT	132	193	(31.5)	509	(74.1)
Tax	60	60	0.8	68	(10.9)
Reported PAT	72	133	(46.1)	441	(83.8)
Adjusted PAT	72	133	(46.1)	441	(83.8)
Adj. diluted EPS (Rs)	0.51	0.94	(46.1)	3.12	(83.8)

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q3FY24E	Q3FY24A	Variance (%)
Net sales	6,116	5,464	(10.7)
EBTIDA	811	523	(35.6)
Margin (%)	13.3	9.6	-370bps
Adjusted PAT	412	72	(82.6)

Source: Company; IDBI Capital Research

Conference call highlights

- **Market survey:** During Q3FY24, the company managing director Ms Neetu Kashiramka had surveyed and visited 20 markets in India. The major takeaways were (1)VIP is lagging behind in the competition.(2) There is a good brand recall in the market for the VIP products.(3) There is a good demand for the premium products in the market.
- **Leadership and Management:** During the quarter, there has been a lot of changes in the management of the VIP industries, 60% of the leadership team is new. Importantly, all the positions are filled up except CFO of the company who will be joining in Q4FY24.
- **Sales and Distribution:** During Q3FY24, VIP opened 2 stores in Mumbai airport, 4 airport stores will get opened in Q4FY24 and 10 airport stores in FY25. Also, The Company will open 20 stores in Q4FY24 and 40 stores in FY25 to reach 600 stores. VIP expects that its ecommerce sales will increase from 21% to 25-30% by the end of FY25 and aims to be top selling brand on Amazon and Flipkart.
- **Operational Performance:** During Q3FY24, Volumes were down by 4% QoQ. Also, Inventory increased due to demand slowdown in soft luggage segment. Nevertheless, the company expects the inventory to be ~ Rs 6 bn in upcoming quarters. Also, tax rate for the quarter were 47% due to deferred tax asset got created during the quarter. The tax rate for FY24 will be 27%.
- **New product developments:** The company plans to launch 37 new products in Q4FY24 majorly catering to the premium segments. The new products will up to the range of Rs18,000 (Current Rs10,000). Also, VIP wants to change perception of its VIP brand products from an old brand to new premium product brand.
- **Guidance:** The Company has guided the double digit volume growth in Q4FY24 led by growth in premium segment. Also; the company maintains its guidance for EBITDA margin in the range of 18-20% by the end of FY25. There are no plans for major capex till H1FY25. During CY24, there will be no increase in the prices of the products. Importantly, VIP is changing its vision for the company from Luggage Company to travel solution company.

Exhibit 3: Change in estimates

	FY24E			FY25E			FY26E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	23,738	23,406	(1.4)	27,062	25,747	(4.9)	29,352
EBITDA (Rs mn)	3,323	2,644	(20.4)	3,789	3,605	(4.9)	4,109
<i>EBITDA margin (%)</i>	<i>14.0</i>	<i>11.3</i>	<i>-270bps</i>	<i>14.0</i>	<i>14.0</i>	<i>0bps</i>	<i>14.0</i>
Net profit (Rs mn)	2,056	598	(70.9)	2,464	1,849	(24.9)	2,318
EPS (Rs)	14.5	6.1	(58.4)	17.4	13.1	(24.9)	16.4

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	6,186	12,895	20,823	23,406	25,747	29,352
<i>Change (yoy, %)</i>	<i>(64.0)</i>	<i>108</i>	<i>61</i>	<i>12</i>	<i>10</i>	<i>14</i>
Operating expenses	(6,838)	(11,451)	(18,240)	(20,763)	(22,142)	(25,242)
EBITDA	(653)	1,444	2,584	2,644	3,605	4,109
<i>Change (yoy, %)</i>	<i>-122.4</i>	<i>(321)</i>	<i>79</i>	<i>2</i>	<i>36</i>	<i>14</i>
<i>Margin (%)</i>	<i>(10.6)</i>	<i>11.2</i>	<i>12.4</i>	<i>11.3</i>	<i>14.0</i>	<i>14.0</i>
Depreciation	(779)	(700)	(737)	(981)	(991)	(1,001)
EBIT	(1,432)	745	1,847	1,663	2,614	3,109
Interest paid	(298)	(246)	(285)	(535)	(428)	(342)
Other income	484	363	195	105	106	107
Pre-tax profit	(1,246)	862	2,079	975	2,292	2,873
Tax	271	(192)	(442)	(378)	(443)	(555)
<i>Effective tax rate (%)</i>	<i>21.8</i>	<i>22.3</i>	<i>21.3</i>	<i>38.7</i>	<i>19.3</i>	<i>19.3</i>
Minority Interest	-	-	-	-	-	-
Net profit	(975)	669	1,637	598	1,849	2,318
Exceptional items	-	-	322	(258)	-	-
Adjusted net profit	(975)	669	1,315	856	1,849	2,318
<i>Change (yoy, %)</i>	<i>(160.8)</i>	<i>(169)</i>	<i>96</i>	<i>(35)</i>	<i>116</i>	<i>25</i>
EPS	(6.9)	4.7	9.3	6.1	13.1	16.4
Dividend per sh	-	-	2.0	3.0	4.0	4.0
<i>Dividend Payout (%)</i>	<i>-</i>	<i>-</i>	<i>21.5</i>	<i>50</i>	<i>31</i>	<i>24</i>

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	5,172	5,597	6,417	6,849	8,133	9,886
Share capital	283	283	283	283	283	283
Reserves & surplus	4,889	5,314	6,134	6,565	7,849	9,602
Total Debt	1,537	1,227	1,810	1,210	610	110
Other liabilities	1,640	1,403	1,319	1,318	1,318	1,428
Curr Liab & prov	2,600	4,075	4,607	4,870	5,335	6,380
Current liabilities	2,394	3,825	4,337	4,585	5,034	6,052
Provisions	206	250	270	284	302	328
Total liabilities	5,777	6,705	7,736	7,398	7,264	7,480
Total equity & liabilities	10,949	12,302	14,153	14,247	15,396	17,366
Net fixed assets	969	1,051	1,630	1,933	2,235	2,535
Investments	1,432	438	258	258	258	33
Other non-curr assets	2,281	1,914	2,007	1,721	938	146
Current assets	6,268	8,899	10,259	10,334	11,965	14,651
Inventories	3,017	5,184	5,871	6,092	6,701	7,639
Sundry Debtors	1,485	2,185	2,554	2,870	3,158	3,600
Cash and Bank	905	207	365	118	764	1,933
Other current assets	862	1,323	1,470	1,254	1,343	1,268
Total assets	10,949	12,302	14,153	14,247	15,396	17,366

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	(1,246)	862	2,079	975	2,292	2,873
Depreciation	(454)	490	147	196	198	200
Tax paid	9	(68)	(531)	(377)	(443)	(555)
Chg in working capital	1,160	(1,331)	(558)	(275)	(431)	(663)
Other operating activities	277	(762)	483	418	-	-
Cash flow from operations (a)	(255)	(809)	1,620	937	1,617	1,855
Capital expenditure	838	(573)	(726)	(500)	(500)	(500)
Chg in investments	(1,001)	994	180	-	-	225
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(163)	421	(546)	(500)	(500)	(275)
Equity raised/(repaid)	-	0	0	(0)	(0)	(0)
Debt raised/(repaid)	1,215	(310)	583	(600)	(600)	(500)
Dividend (incl. tax)	-	-	(283)	(424)	(565)	(565)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	1,215	(310)	301	(1,024)	(1,165)	(1,065)
Net chg in cash (a+b+c)	797	(698)	1,375	(587)	(49)	514

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	36.6	40	45	48	58	70
Adj EPS (Rs)	-6.9	4.7	9.3	6.1	13.1	16.4
Adj EPS growth (%)	-160.8	-169	96	-35	116	25
EBITDA margin (%)	-10.6	11.2	12.4	11.3	14.0	14.0
Pre-tax margin (%)	-20.1	6.7	10.0	4.2	8.9	9.8
Net Debt/Equity (x)	0.1	0.2	0.2	0.2	0.0	-0.2
ROCE (%)	-17.2	9	21	18	27	27
ROE (%)	-17.3	12	22	13	25	23
DuPont Analysis						
Asset turnover (x)	0.5	1.1	1.6	1.6	1.7	1.7
Leverage factor (x)	2.1	2.2	2.2	2.1	2.0	1.8
Net margin (%)	-15.8	5.2	6.3	3.7	7.2	7.9
Working Capital & Liquidity ratio						
Inventory days	178	147	103	95	95	95
Receivable days	88	62	45	45	45	45
Payable days	103	102	70	69	71	71

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	-78.9	114.9	58.5	89.9	41.6	33.2
Price/Book value (x)	14.9	13.7	12.0	11.2	9.5	7.8
EV/Net sales (x)	12.5	6.0	3.8	3.3	3.0	2.6
EV/EBITDA (x)	-118.8	53.9	30.3	29.5	21.3	18.3
Dividend Yield (%)	0.0	0.0	0.4	0.6	0.7	0.7

Source: Company; IDBI Capital Research



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

IDBI Capital Markets & Securities Ltd.**Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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