Initiating Coverage

VIP Industries Ltd.

November 09, 2022

RETAILRESEARCH

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VIP Industries Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Luggage	Rs. 724	Buy in Rs. 718-730 band and add more on dips in Rs. 640-650 band	Rs. 798	Rs. 855	2-3 quarters

HDFC Scrip Code	VIPINDEQNR
BSE Code	507880
NSE Code	VIPIND
Bloomberg	VIP IN
CMP (Nov 07, 2022)	724
Equity Capital (RsCr)	28.3
Face Value (Rs)	2
Equity Share O/S (Cr)	14.13
Market Cap (RsCr)	10234
Book Value (Rs)	40
Avg. 52 Wk Volumes	526449
52 Week High	774
52 Week Low	494

Share holding Pattern % (September, 2022)	
Promoters	51.33
Institutions	29.54
Non Institutions	19.13
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Incorporated in 1971, VIP Industries Ltd (VIP) is the largest luggage maker in Asia and second largest in the world offering a wide range of products in hard luggage and soft luggage segments including school bags, trolleys, backpacks, suitcases, executive cases, duffels and overnight travel solutions. Having sold over 60 million pieces of luggage to date, it is a leading manufacturer of hard and soft luggage in Asia. Its array of products (1500+ SKUs) are available across pricing matrix (Rs. 500 – Rs. 25000+ price range across mass, mid-market and premium segments) and through a strong & self-owned brand portfolio that includes names like VIP, Skybags, Carlton, Aristrocrat, Alfa and Caprese. The company has set-up a captive manufacturing units in Bangladesh to reduce dependency on Chinese imports for soft luggage while hard luggage is manufactured in-house in India. In our opinion, global luggage industry provides 'a bagful of opportunities' given rising business and leisure travel, luggage and bags being treated as lifestyle products and proliferation of different usages – sports, business, fashion, etc. which is more accentuated for India given rising incomes, aspirations and mobility. VIP being the market leader (~47% market share) with its power portfolio, unparalleled reach and financial strength looks poised to grab the biggest piece of this opportunity pie.

Valuation & Recommendation:

VIPs' leadership position in the Indian market provides it with significant scale, strength and experience to grow its position globally. It is already the largest manufacturer in Asia with its in-house production giving the company an advantage in terms of cost competitiveness. In recent years, it has further strengthened its manufacturing capabilities and reduced sourcing from China to only 8%. VIP remains committed to further growing its manufacturing capacity and maintaining overall in-house manufacturing of ~70-80% (vs ~50-55% pre-pandemic) through its Indian and Bangladesh units by FY22-23. This high level of back-end control will not only aid the gross margin expansion but will put VIP Industries on the global map. Pandemic induced slowdown in demand gave VIP's pro-active management, the opportunity to modify its supply chain and operations. The company was able to significantly enhance its upstream control, thereby bringing in sustainable cost efficiencies and walking out leaner in the aftermath of pandemic.

Given the strong balance sheet and healthy liquidity position, wide reach, best-in-class brands, favourable macroeconomic factors and proven track record, VIP is one of our top picks in consumer discretionary sector. **We think the base case fair value of the stock is Rs 798 (42x FY24E EPS) and the bull case fair value of is Rs 855 (45x FY24E EPS). Investors can buy the stock in Rs 718-730 band (38x FY24E EPS) and add more on dips in Rs 640-650 (34x FY24E EPS).**

Financial Summary

Particulars (in Rs Cr)	Q2FY23	Q2FY22	YoY-%	Q1FY23	QoQ-%	FY21	FY22	FY23E	FY24E
Net Revenues	515	330	56	591	(13)	619	1290	2054	2426
EBITDA	72	42	71	103	(30)	-65	144	339	427
APAT	43	19	134	69	(37)	-97	67	206	269
Diluted EPS (Rs)	3.06	1.31	134	4.86	(37)	-6.9	4.7	14.6	19.0
P/E (x)						NA	153	50	38
EV/EBITDA						NA	72	30	24
RoE-%						NA	12.4	32.3	32.7

(Source: Company, HDFC sec)

Q2FY23 result update

On an average, Q2 revenues are ~75% of Q1 sales but Q2FY23 sales were at 87% of Q1FY23 revenues, which is the highest ever compared to any pre-Covid year. On a pre-Covid base, revenue recovery was at 125% in Q2FY23 vs. 105% in Q1FY23. It witnessed a volume recovery by 13.5% as compared to Q2FY20 (pre-covid) levels. The company witnessed robust business traction in value added and mid-premium segment such as Aristrocrat, VIP, Skybags, Cartlon. However, the company acknowledged that mass segment is growing at a faster pace than premium segment for the industry.

Gross profit increased 59.2% YoY to Rs248 Cr with margin of 48.1% versus 47.1%/49.9% in Q2FY22/Q1FY23 respectively due to higher RM cost. Despite gross margin falling by 99 bps YoY to 48.1%, its EBITDA margin expanded 124 bps YoY to 13.9%. EBITDA jumped by 71% YoY on to Rs 72 Cr despite overall expenses increasing by 54% YoY at Rs 176 Cr. Adjusted net profit jumped to Rs 43 Cr in Q2FY23 compared to Rs 18.5 Cr in Q2FY22.

In terms of channels, EBOs, General trade and E-commerce witnessed higher contribution of around 11%, 18% and 22% to the overall revenue in Q2FY23 as compared to pre-covid levels. The company launched 46 new EBOs (Exclusive Brand Outlets) in H1FY23. 44 new outlets are expected open in H2FY23. The revenue share of exports in Q2FY23 was at 5% (vs. 2.5% in pre-Covid levels). Though the company had not been aggressive in the export business earlier it is now planning to increase the global presence.

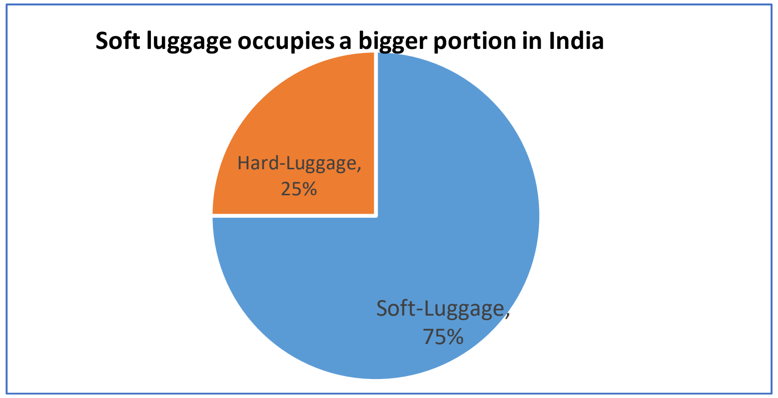
Own manufacturing contribution (Bangladesh & India) has increased significantly over the last two years and it is currently contributing ~65% of revenue in Q2FY23 (vs. 35% in Q2FY20). VIP will be increasing its manufacturing capacity by 25% in FY23 spread across India and Bangladesh plants. The company has embarked on a Rs 100 crore capex plan to enhance its capacity by ~25% by FY24E.

Key Triggers

The Luggage Industry: A 'bagful of opportunities'

According to Euromonitor International, in 2020, worldwide sales of bags and luggage were estimated at USD 122.8 bn. Global sales of bags and luggage products are expected to grow by a CAGR of approximately 6.9% from 2021 to 2025, with global luggage product sales, backpack product sales and business bags product sales forecasted to grow by CAGRs of approximately 8.6%, 7.3% and 5.7%, respectively. The size of luggage industry in India is ~Rs 8,000 Cr (ex backpack and handbags) and has grown at CAGR of ~14% over FY14-19. The size of backpacks and handbags (a highly unorganized industry) is estimated to be ~ Rs. 11,000 Cr and is typically faster growing. Covid-19 pandemic did affect the growth in 2020 and 2021, however, the prospects of Indian luggage industry continue to remain bright with rising per capita income, continuous innovation and introduction of new products, rising spends on travel and increasing influence of modern trade and e-tailing.

Hard Luggage vs. Soft Luggage: Hard luggage is made up of polycarbonate, ABS or polypropylene. Polycarbonate or ABS have replaced polycarbonate as the go to material as they are sturdy as well as lightweight i.e. modern day luggage trolley bags. Soft luggage is made up of vinyl, polyester or cotton, etc. and consists of backpacks, duffle bags, laptop bags, etc. Soft luggage dominates the market with ~75% share. The hard luggage is manufactured locally with VIP being one of the largest manufacturers of hard luggage while soft luggage is imported. China is the global hub for manufacturing soft luggage due to massive cost advantages. While the proportion of soft-luggage has increased over the years, recent trends suggest that hard-luggage is back in trends amongst youth due to its alluring designs and durable nature.



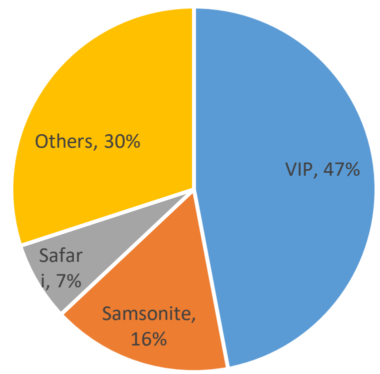
(Source: Company, HDFC sec)

Shift from unorganized to organized: Indian luggage industry has been historically dominated by unorganized players as the lower priced luggage accounts for majority of the market, price difference vis à vis branded products and tax pilferage committed through under invoicing. However, GST has created a level playing field, GST of 18% is applicable to the entire industry. The impact of it has been severe to unorganized industry who used to evade taxes. Reduced price differences have led volumes from the unorganized towards branded organized players like VIP for better product quality and established brands. Aggressive spending on brands and scaling up of distribution has further benefited organized industry. The impact of Covid-19 and prolonged lockdowns has been severe on unorganised sector while organised industry with higher scale and superior liquidity position is better placed. This could fast track the transition from unorganised to organised sector.

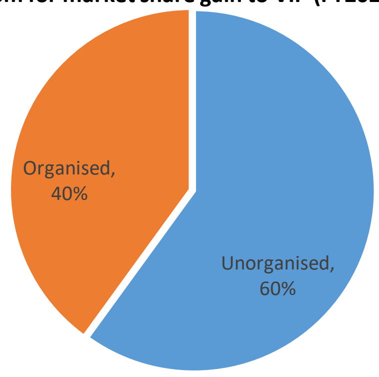
VIP dominates the organised industry with ~47% market share while top 3 players including Samsonite and Safari Industries account for ~70% market share. Samsonite is indexed towards premium category while Safari is more focused on lower priced luggage. A shift in customer preference towards hard luggage, which fetches higher realisations, has also lent traction to the organised segment (unorganised segment largely operates in soft luggage space). According to Crisil, the market share of hard luggage is seen rising to 50-55% vs 30-35% in FY20. Consequently, realisations are expected to improve ~15% over the pre-pandemic level.

VIP is also enhancing its Hard Luggage (HL) production capacities in Bangladesh to leverage the accelerated shift of consumer preference toward this category. Demand for hard luggage has continued to pick up pace for VIP in line with the global trends (revenue contribution: 64% in Q1FY23 vs. 42% in Q1FY20). Company's strategy towards producing more of Polypropylene (vs. Polycarbonate) is bearing fruits. After many years the company in FY22 has invested ~ Rs.36 crore in expanding capacity for hard luggage in India and Bangladesh. It is also planning to launch new product lines in hard luggage.

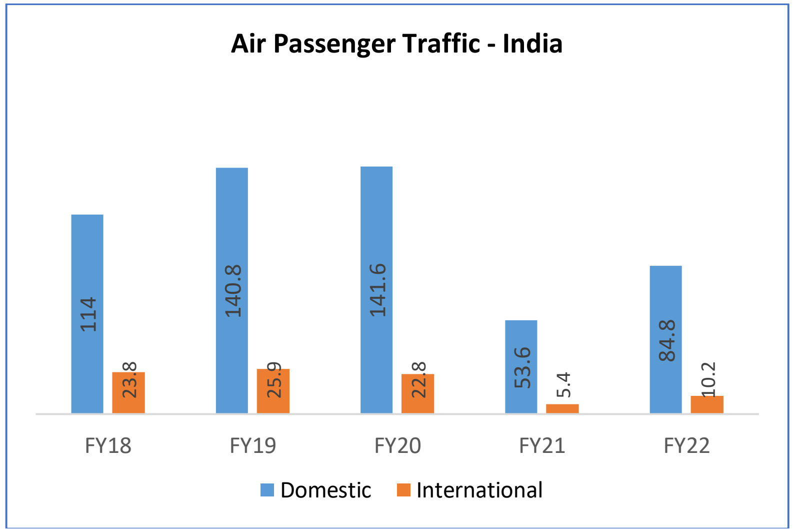
VIP is market leader in organsied sector (FY2020)



Unorganised still accounts for majority share giving headroom for market share gain to VIP (FY2020)

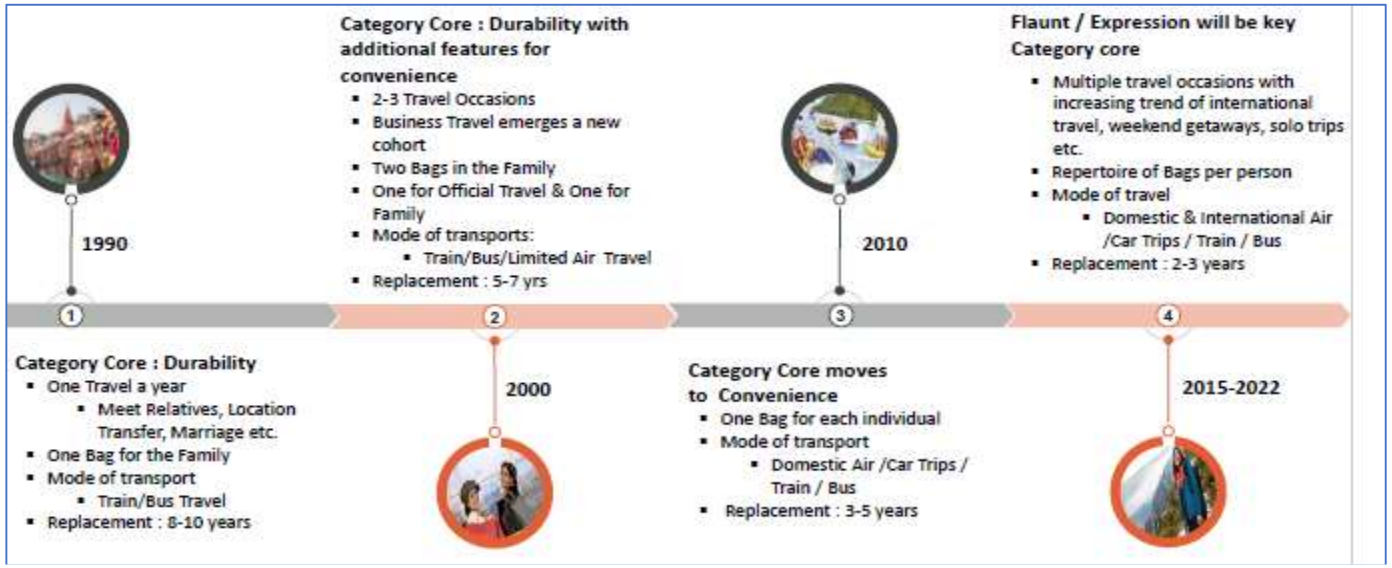


Rising travel and tourism to increase the demand for luggage: India has one of the highest proportions of millennial population compared to other economies. Indians are aspirational consumers who like to keep upgrading their brands with rising disposable income. The Indian tourism market has grown at CAGR of 9.7% in the last 10 years over to US $53.6 bn. According to WWTC, leisure travel spending reached USD 234.16 billion in 2019 and is expected to reach USD 432.3 billion by 2028F, whereas business travel revenue was USD 12.84 billion in 2019 and is projected to increase to USD 24.4 billion by 2028F. In 2021, which was affected by disastrous 2nd Covid wave, leisure travel stood at USD 153.6 bn, as compared to business spend of USD 6.3 bn. Further, with rise in income levels increasing number of people are travelling abroad. Changing lifestyles, increasing urbanization, and growing interest of people in tourism are leading to an increasing demand for luggage. With the advent of low cost airlines, the volume of air travellers has also increased significantly. Domestic air traffic, often accounted as a proxy for luggage industry has registered a growth from 59.01 mn passengers in FY21 to 94.99 million passengers in FY22. With Covid-19 behind us, the industry has witnessed a robust growth over past few quarters, and with highly untapped opportunities and supportive government initiatives, the growth potential for air travel and subsequently for luggage industry remains high.



(Source: Ministry of Civil Aviation)

Changing Attitudes Towards Travel Inducing Shorter Replacement Cycles In Luggage Industry



<u>VIP Industries: India's no.1 Luggage maker since 1970s</u>

VIP is one of the few Indian brands that pivoted not just to survive but to hold onto its leadership position over many decades amidst ever changing regulations and fierce competition from foreign companies.

VIP in the 20th Century: In the 1970s, VIP made briefcases priced at Rs 50-100 for office-goers. They were called VIP to give them an aspirational tag, and owning one meant you had arrived. Further, it also pioneered in manufacturing suitcases. For many, a VIP suitcase was also synonymous with being tough. Launched in 1987, the popular Alfa had some of VIP's patented innovations, such as a non-reversible lock, which ensured that the briefcase did not open upside down.

But the company faced headwinds in the 1980s and 1990s due to rising manufacturing costs, excise duties, and changing trends. Soon, briefcases were passé. And then liberalization brought with it its own set of problems. Many multinationals—including Samsonite—entered India, exposing customers to global trends and forcing Indian firms to upgrade to stay competitive. To add to it, VIP also had to deal with competition from several cheaper, unbranded alternatives at the lower end of the market. It couldn't foresee changing consumer preferences. For one, there had been a clear dip in demand for hard luggage, VIP's forte. The company did launch a soft luggage brand, Skybags, in the eighties, but didn't invest enough in it.

Transformation of VIP

Snippet from VIP Advertisement in 1976

VIP in 2021

(Source: Company, HDFC sec)

VIP of Today: In 2008, Radhika Piramal took over as MD. She formulated the fresh strategy of rebranding old VIP brands as well as launching newer and younger brands. Besides revamping briefcase and suitcase brands such as Alfa, and VIP, she re-introduced the company's soft luggage brand, Skybags, in 2011, but this time for backpacks; and in 2013, she launched Caprese. The fuddy-duddy briefcase and suitcase brand, Aristocrat, was revamped as a soft luggage and backpack brand for the frequent traveller; and premium luggage brand Carlton, which VIP had acquired in 2004, turned its focus towards high-end customers. VIP products also made their appearance at multi-brand retail chains. While it still makes briefcases, VIP's portfolio consists of a wide variety of hard and soft luggage, backpacks, and handbags, ranging from Rs 800 to Rs 25,000 and even beyond.

Over the past few years, VIP has made a conscious shift towards more youthful and trendy designs. It has moved away from the mundane greys, blacks, and blues of yesteryears to fuchsias, tangerines, and teals to add zest to soft luggage, lightweight suitcases, backpacks, and handbags. And this has paid rich dividends.

Portfolio of best-in-class brands:

The secret of VIP's success is constant innovation in tune with the changing design trends and consumer needs. It has a well-diversified product portfolio which caters to consumers across different demographics with presence at every price point right from affordable and value for money to premium segment brands.

Category	Brands	Year of Launch	Positioning	Revenue Contribution (FY22)	Retail Presence (no. of outlets)	Key Competitors
Premium	CARLTON THE NEW FACE OF BUSINESS	2004	Premium range of luggage focused towards young business people	4%	1442	Samsonite, Delsey, Swiss Gear, Tommy Hilfigher
	CAPRESE	2012	Mid to premium range handbags and accessories for women	4%	1420	Da Milano, Baggit, Esbeda, Lavie, Guess
Mid-market	VIP	1971	Mid-range luggage, backpacks and business bags for family	21%	10212	American Tourister, Vergae, Fastrack, Wildcraft
	Skybags ARRIVE IN STYLE	2012	Youth oriented luggage and backpack and travel accessories	33%	10497	
Mass	ARISTOCRAT UNPACK YOUR DREAMS	2007	Luggage, backpacks and briefcases for frequent travellers	32%	10016	Safari, Kamiliant,
	ALFA	1987	Introduced as hard luggage brand, now offers all types in value for money range	~6%		

(Source: Company, HDFC sec)

As mentioned earlier, organized luggage industry is oligopolistic with VIP, Samsonite and Safari Industries accounting for over ~70% market share. In the past, VIP has been particularly dominant in mid-market segment (Rs 3,000-7,000). The areas where it wasn't leader were the segments below Rs 3,000, where unbranded luggage was strong, and above Rs 7,000, where higher-priced products from other companies (particularly Samsonite) had a strong presence. With Aristocrat, which offers products at lower prices, and Carlton Edge (in the premium category), VIP has successfully targeted both these areas which is aligned with the long term goal to widen the gap between VIP and its competition.

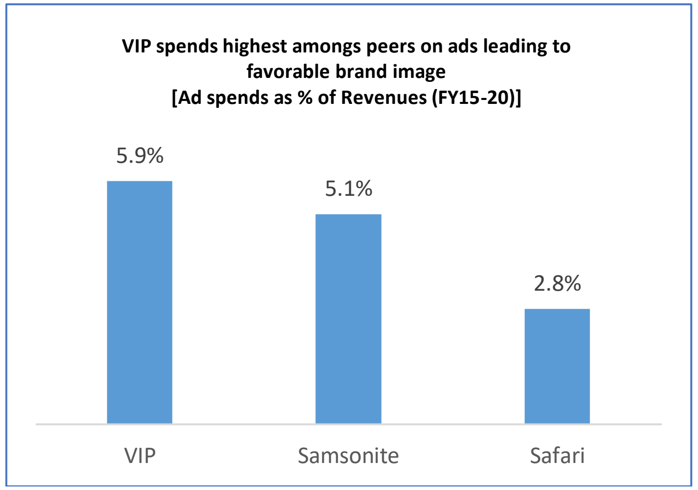
VIP's continued thrust on innovation: VIP has an in-house design team which helps it in continuously launching innovative products and define trends. In FY22, VIP launched 59 new products in the premium/economy segment and 43 new products in value segment in FY22. Most new launches have been in the value (Aristocrat) and economy (Skybags) segment. In addition, smart luggage with an in-built GPS under SMARTTECH Series was also launched during the year to prevent risk of loss. This is India's first-of-its-kind smart connected travel gear. In Q1FY23, VIP had 38 new launches in luggage and 127 in backpacks.

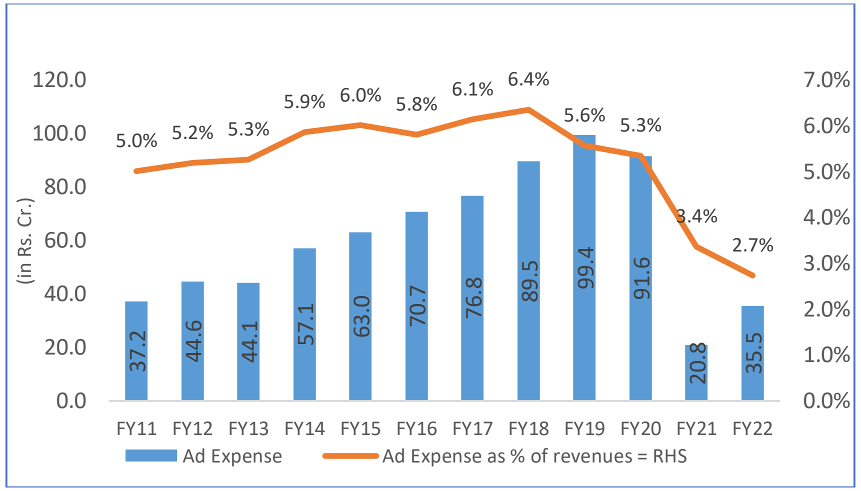
Scope for high market share gains amidst weaker competition

Despite greater turbulence, VIP has emerged stronger and leaner as it has done in the past in the aftermath of Covid-19 pandemic. While VIP has lost the market share last in FY21 to unorganised players and Safari Industries (strong in value segment) due to down trading and excessive price competition, many smaller players faced the cash crunch and many have been permanently wiped out. With luggage industry being largely unorganised, it gives good opportunity to VIP for high market share gains with solid pent-up demand, strong liquidity position and established presence at every point on price-value matrix through portfolio of power brands.

Additionally, India's favourable demographics, growing urbanisation and rising discretionary income is fuelling the demand for branded products. VIP's thrust is on capturing a greater share of the unorganised market for its entry-level and value brands. We believe that VIP's pan-India distribution network, aggressive branding and marketing strategy, and the strong credibility that the company enjoys in the luggage category puts it in favourable position to enhance its sales. Endorsing our belief, the company's value brand Aristocrat now contributes ~35% of revenues as against 25% in the previous year.

Aggressive ad spends to build market share: VIP has a clear brand segmentation strategy that avoids cannibalization. Alfa and Aristocrat cater to mass segment, Skybags and VIP to mid-market and Carlton and Caprese in the premium segment. In response to rising competition in the organized segment and to make inroads in unorganized segment of the market, the company has been aggressively spending on advertisements. Over the years, celebrities like Alia Bhatt (Caprese), Kareena and Saif Ali Khan (VIP Bags), Varun Dhawan (Skybags) and, Rohit Sharma and Ravichandran Ashwin (Aristocrat) have been roped in to advertise its various sub brands. This has heightened brand awareness and helped company directly connect with youth whilst creating a portrait that mirrors their personality. Ad spends as a % of sales consistently increased over the years, from ~4.7% of sales in FY09 to ~6.4% of sales in FY18 while dropping to 5.3% in FY20. In FY22, amidst cost reduction initiatives, ad-spends came down to 2.7%. The ad campaigns had favourable impact on the revenue growth. The size of ad spends also creates barrier for new entrants to build a strong brand. Recently the company has tweaked its marketing strategy as it now plans to adopt influencer marketing strategies rather than rope in brand ambassadors. The management has guided that ad-spends will remain in the range of 5-5.5%.





(Source: Company, HDFC sec)

Wide Spread Distribution Network: VIP being the oldest luggage manufacturer in India has developed a strong multi-channel distribution network having presence across dealers (~1000) & distributors (100+), Modern Trade (~1100), MBOs, EBOs, CSD and e-commerce. It has over 11,000 touchpoints which is 3x that of Safari. Over the years, VIP has reduced its dependence on General Trade and CSD while increasing distribution across EBOs/Franchise stores, Modern Trade and E-commerce. The company shut around 100 EBOs in FY21 in-line with competition to control costs amidst pandemic induced demand destruction. Going ahead, it aims to increase penetration especially in Tier 2 & Tier 3 cities through franchisees in its bid to have an asset light distribution model. In FY22, it added 32 EBOs while its overall distribution network stood at 376 stores. It is planning to add around 120-150 stores on an asset-light franchisee model in the current year. Apart from e-commerce, all channels have to stock the products and given the voluminous nature of industry, retailers would likely stock what sells fast. Thus, brand pull becomes important and VIP with its aggressive brand building can do away with offering low channel margins (~20-25%) vs Safari who has to offer significantly high channel margins to place its products. Well entrenched distribution network along with portfolio of power brands gives VIP a massive edge over competition.

E-commerce: Revenue share of e-com channel has increased from 6% in FY20 to 13% in FY22. E-com top-line is already at 155% of pre-COVID levels and the channel witnessed 66% growth in FY22. Given e-com is one of the fastest growing channel, rising share in overall sales mix is a healthy sign.

Scaling up international business

Companies globally, across sectors, are actively looking to de-risk their supply chain from China, post the COVID-19 pandemic. This trend is being witnessed in the luggage industry as well. According to the management, VIP has been receiving encouraging responses from OEMs in its international business it remains focused on converting these opportunities to help scale up our international business. The management is targeting 15% revenue contribution from exports in next 3 years (~5% contribution in Q1FY23 vs 2-2.5% in pre-covid era) with a view to expand its geographical reach. Additionally, VIP is also evaluating white label B2B exports for certain large retailers in international markets.

High growth levers for handbags and backpacks

With VIP label having the status of avuncular brand, the company launched Skybags, a youth oriented brand in 2011. Skybags today has become India's number 1 brand by value. Identifying a massive gap in the branded handbag segment, VIP launched Carpese, a women's handbag brand. Unlike luggage which is often a one-time buy, consumers don't shy away from owning multiple bags. Launched in 2012, it had already crossed Rs. 100 Cr. Sales mark in FY18 (~46% CAGR).

In terms of product mix, luggage accounts for ~75% of revenues while backpacks and handbags which are typically faster growing account for remaining 25%. The latter two have been growing faster given;

- rising usage (diversified uses such as gym bags, college bags, laptop bags, etc.; rising sales of 2W, increasing number of people enrolling for college and joining workforce)
- lower organized sector penetration (unorganised share >65% for backpacks and >85% for handbags presents VIP massive opportunity with its strong brand equity and wide distribution network),
- shorter replacement cycles (1-2 years vs > 4 years for luggage)
- transformation from utility to fashion

Apart from Skybags, VIP also offers backpacks under Aristocrat (value segment) apart from eponymous brand, VIP (mid-market).

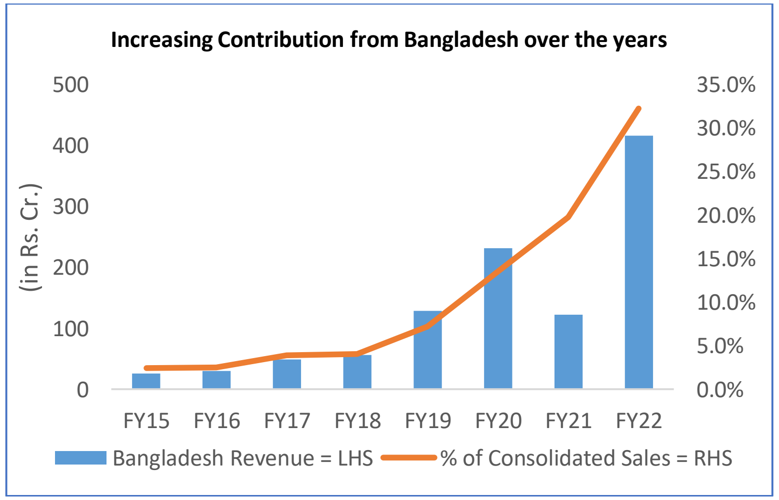
Handbags offer an opportunity of exponential growth: In handbags segment, VIP operates under Carpese brand which is a play on premiumization trend among women handbag buyers. It has highest number of SKUs which are priced between Rs. 700-5000 and gross margins are amongst highest. While the brand was launched back in 2013, it is yet to achieve a desired scale. Riding on tailwinds of increasing preference for branded products amongst women due to favourable macroeconomic factors (increasing number of women joining workforce, rising per capita income, etc.), the company has set up aggressive goal of scaling its handbags business by 5x over next three years. It has hired a new business head to facilitate the same.

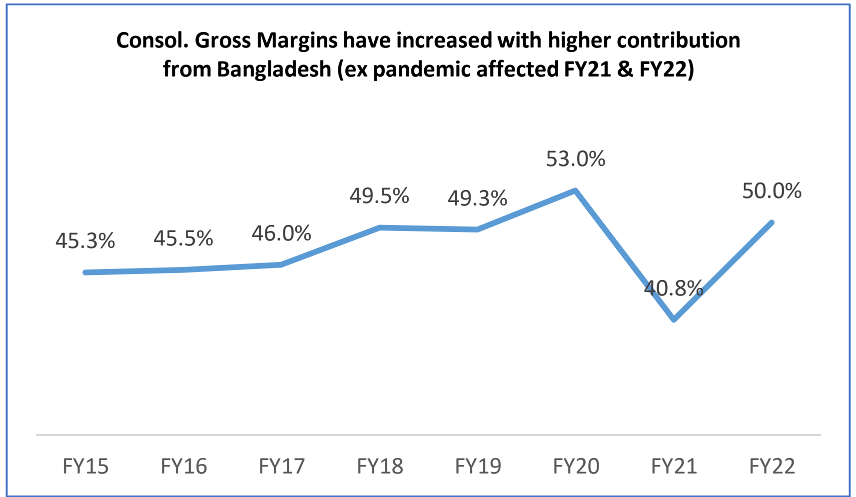
Strategic move to increase sourcing from Bangladesh

As discussed above, while VIP is one of world's leading manufacturer of hard luggage (~25% of topline), its requirements of soft luggage are entirely outsourced. Given the labour intensive nature of soft luggage industry, VIP had been sourcing over 90% of its soft luggage requirements from China prior to FY15 due to favourable costs. However, given the increasing labour costs, strengthening of Yuan, rise in duties and toughening environmental laws, VIP took a strategic decision setup its own manufacturing unit in Bangladesh through formation of wholly owned subsidiary in FY14. Sourcing from China has already come down below 40% in favour of increasing contribution from Bangladesh. Further, with increasing scale of operations in Bangladesh, the margins will witness a significant expansion, given:

- Cheap labour in Bangladesh vs India & China. Its per unit labour cost are third of China
- In-house manufacturing helps in controlling costs with better command over RM sourcing
- 15% import duty on China vs NIL (0%) from Bangladesh
- Higher bargaining power with RM suppliers from China

Over the years the contribution from Bangladesh to consolidated revenues have steadily increased (ex-FY21), resulting in gross margin expansion. With constant efforts to increase Bangladesh's contribution, margins will further enhance. Additionally, with higher operating leverage as the demand picks up going ahead and recent cost rationalization undertaken by the management, the profitability is likely to improve.





(Source: Company, HDFC sec)

Efficient working capital management resulting in healthy return ratios

Category of luggage has evolved from a utility item to a lifestyle product which means rapid addition of varieties for supply chain and highly variable demand patterns. The inflexibility of a forecast based supply chain is a bane for such environment as stock outs and excess inventory is inevitable. Addressing this, VIP shifted from forecasting-based manufacturing model to one based on theory of constraints (ToC). The model works on algorithms which generates production leads based on sales of particular SKU. A particular design may have gone out of fashion for 6 months before manufacturer stops producing but real time data helps plan as per sales.

With ToC the company only produces those SKUs which sell. Thus, non-moving inventory comes down drastically and cash doesn't get blocked. This has helped VIP with reduction in working capital cycle by over 20 days from FY11-FY19 leading to superior FCF generation and higher return ratios. Additionally, VIP has developed robust IT infrastructure resulting in improved efficiencies and lower costs. The working capital was affected in FY20 and witnessed even steeper impact in FY21 as inventory levels increased substantially on lower demand. However, as the demand picked up, the robust mechanism will lead an improvement in cash conversion cycle which is already better compared to peers. Noticeable, over the years, inspite of higher WC requirements, VIP has managed to remain net debt free and generate free cash flow.

Measurable cost savings: Through its cost rationalisation programme, company implemented fixed cost savings worth ~Rs. 170 Cr during pandemic affected FY21 and FY22 and believes 50% of it (Rs. 80-85 Cr) to be sustainable going ahead. On sourcing front, company has increased its sourcing from Bangladesh while reducing its dependency on China, this will generate significant cost advantages as discussed above.

Prior to pandemic, over FY15-20, Revenue/EBITDA/PAT has grown at a CAGR of 10.1%/30.3%/30.5% respectively. Higher contribution from Bangladesh and operating leverage aided margin expansion. VIP achieved peak revenues in FY19 as the performance over the last three fiscals remained subdued owing to pandemic. However, we expect the company to cross peak revenue in FY23E as we expect VIP to report 32% CAGR growth in revenues over FY22-24E. Stabilising RM prices, favourable revenue mix and increased proportion of in-house manufacturing both from India and Bangladesh to translate into better margins going forward. However, in near term, rising inflation on input cost and abnormal high levels of ocean freight continues to remain the major hindrance for the company. Around 65% of the company's raw materials are linked to crude. The management had undertaken ~15% price hike in FY22 and has taken a further price hike of 2% in Q1FY23. Post stabilisation of commodity inflation, demand environment, VIP has an aspiration to touch EBITDA margins of 20%. With effective cost rationalisation programme and allied initiatives, we do expect a structural margin expansion over medium to long term. On a lower base of FY22, we expect a rise of 640 bps in EBITDA margins. Robust revenue growth and margin expansion to lead to 3.7x jump in PAT over FY22-24E.

Key Risks

Attrition at top level

Since 90s VIP has evolved in professional run organisation and is vulnerable to loss of top management personnel. In 1998, Mr. Sanjeev Aga (MD, 1995-1998) left VIP for Idea Cellular. Mr. Sudhir Jatia (MD, 2007-2010) quit VIP to acquire Safari Industries and several employees left VIP to join Mr. Jatia. In the both the above instances, VIP lost market share in subsequent year. In FY20, Mr Sudip Ghose quit as MD.

High competitive intensity: The competitive intensity is low to medium in economy and premium segments, however, unorganized players (60-65%) have strong presence in mass market segment. Additionally, any unwanted price competition from players like Safari or Kamilant in mass market segment could potentially result in market share losses and impact margins. Further looking at the potential in the Indian market we may see new entrants which might result in lower market share for the company.

Currency volatility: The company primarily sources soft luggage from China. Any volatility in forex could impact the margins. However, over past few years VIP is increasingly sourcing from Bangladesh and as VIP's sourcing from Bangladesh and potentially even India increases over next few years, this risk should start reducing.

Volatility in raw material prices could impact margins: The raw materials mainly include polycarbonate, aluminium sections, polypropylene etc. Any increase in the prices of these materials will affect the margins in case of failure to pass price hikes.

Seasonality sales: There's seasonality sales with Q1 (Apr-Jun) doing the major lifting due to increased travel on the account of summer holidays and it being a marriage season. Slowdown here could have an impact on sales of the fiscal.

Recurrence of global pandemic could impact travel and hence demand for VIP's products, which are proxy to travel and tourism.

Company Background

VIP is Asia's largest and the world's second largest luggage maker, manufacturing luggage and travel accessories, VIP has more than 8000 retail outlets in its armoury apart from a well-developed network of retailers in 50 countries. VIP's journey began in 1971 and to date it has sold over 60 million pieces of luggage to travellers around the world and subsequently became the leading manufacturer of hard and soft luggage in Asia. Its brand portfolio includes renowned names like VIP, Skybags, Carlton, Aristrocrat, Alfa and Caprese. VIP has a global footprint with its products available not just across India but also all over Middle East, the UK and select African and South East Asian countries.

Key Milestones	
Year	**Particulars**
1968	Incorporated as Aristo Plast Pvt. Ltd.
1973	Manufacturing Plant was commissioned at Nasik
1981	Name of the Company was changed to VIP Industries Limited
1986	Got listed on BSE
1987	Launched a new brand by the name “Alfa”
1995	New manufacturing facility was set up at Sinnar.
2001	Entered into a strategic alliance with France-based luggage maker Delsey which was later discontinued.
2004	Acquired UK based Carlton brand gobally
2005	Revamped the VIP brand with setting up of design studio
	New manufacturing facility was set up at Haridwar
2008	Aristocrat Luggage Limited was merged with VIP
2009	Ms. Radhika Piramal was appointed the Executive Director of the Company in 2009.
2011	Launched Skybags brand
2012	Launched Ladies Hand Bags brand - "Caprese"
2013	Incorporated a wholly owned subsidiary by the name VIP Industries Bangladesh Pvt. Ltd. to set-up a luggage manufacturing plant in Bangladesh.
2017	Launched the new brand identity for "Aristocrat"
2018	Incorporated additional subsidiaries in Bangladesh
2021	Mr. Anindya Dutta appointed as new MD

(Source: Company, HDFC sec)

Financials

Income Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	1714	619	1290	2054	2426
Growth (%)	-3.9%	-63.9%	108.5%	59.3%	18.1%
Operating Expenses	1420	684	1145	1715	1999
EBITDA	294	-65	144	339	427
Growth (%)	31%	NA	NA	135%	26%
EBITDA Margin (%)	**17.2%**	**NA**	**11.2%**	**16.5%**	**17.6%**
Depreciation	87	78	70	80	87
Other Income	13	48	36	41	36
EBIT	220	-95	111	300	376
Interest expenses	23	30	25	29	23
PBT	148	-125	86	271	353
Tax	37	-27	19	65	85
APAT	160	-97	67	206	269
Growth (%)	9.3%	NA	NA	10.0%	11.1%
EPS	11.3	-6.9	4.7	14.6	19.0

Balance Sheet

Particulars (in Rs Cr) - As at March	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	28	28	28	28	28
Reserves	582	489	531	688	900
Shareholders' Funds	**610**	**517**	**560**	**716**	**928**
Borrowings	32	154	123	93	38
Other Non-Current Liabilities	196	176	154	251	300
Total Source of Funds	**838**	**847**	**836**	**1060**	**1266**
APPLICATION OF FUNDS					
Net Block	368	286	263	278	246
CWIP	3	2	7	7	7
Investments	3	3	3	3	3
Other Non-current Assets	42	65	57	57	57
Total Non-Current Assets	**416**	357	330	345	313
Inventories	448	302	518	675	798
Trade Receivables	267	148	219	338	366
Cash & Equivalents	11	91	21	76	89
Other Current Assets	102	198	143	183	336
Total Current Assets	**828**	**738**	**900**	**1272**	**1588**
Trade Payables	291	154	282	394	432
Other Current Liab & Provisions	114	94	112	163	203
Total Current Liabilities	**406**	**248**	394	557	635
Net Current Assets	423	490	506	715	953
Total Application of Funds	**838**	**847**	**836**	**1060**	**1266**

Cash Flow Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	148.4	-124.6	86.2	271.0	353.5
Interest Expenses	23.0	29.8	24.6	29.1	22.8
Depreciation	83.9	77.9	70.0	79.9	87.1
Working Capital Change	53.9	139.1	-190.2	-142.8	-117.3
Tax Paid	-40.4	-2.9	-8.6	-65.0	-84.8
OPERATING CASH FLOW (a)	**292.4**	**85.3**	**-23.2**	**258.8**	**302.1**
Capex	-45.2	-12.2	-36.4	-95.0	-55.0
Free Cash Flow	247.1	73.1	-59.5	163.8	247.1
Investments and Others	-39.9	-132.9	182.6	0.0	-100.0
INVESTING CASH FLOW (b)	**-85.1**	**-145.1**	**146.2**	**-95.0**	**-155.0**
Debt Issuance / (Repaid)	-54.0	121.5	-31.0	-30.0	-55.0
Interest Expenses	-2.7	-6.1	-14.7	-29.1	-22.8
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-73.0	-0.4	-35.5	-49.5	-56.6
Others	-81.3	-41.5	-44.3	0.0	0.0
FINANCING CASH FLOW (c)	**-210.9**	**73.5**	**-125.5**	**-108.6**	**-134.4**
NET CASH FLOW (a+b+c)	**-3.7**	13.7	-2.5	55.2	12.7

Key Ratios

Particulars	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin	17.2	NA	11.2	16.5	17.6
EBIT Margin	12.8	NA	8.6	14.6	15.5
APAT Margin	9.3	NA	5.2	10.0	11.1
RoE	26.9	NA	12.4	32.3	32.7
RoCE	33.6	NA	16.4	40.2	42.4
Solvency Ratio					
Net Debt/EBITDA (x)	0.1	NA	0.7	0.0	(0.1)
Net D/E	0.0	0.1	0.2	0.0	(0.1)
Per Share Data (in Rs)					
EPS	11.3	(6.9)	4.7	14.6	19.0
CEPS	17.5	(1.4)	9.7	20.2	25.1
BV	43.2	36.6	39.6	50.6	65.6
Dividend	3.2	-	2.5	3.5	4.0
Turnover (in days)					
Debtor days	60	123	52	49	53
Inventory days	125	200	131	127	134
Creditors days	78	119	70	72	75
Valuation					
P/E	64	NA	153	50	38
P/BV	17	20	18	14	11
EV/EBITDA	35	NA	72	30	24
EV / Revenues	6	17	8	5	4
Dividend Yield (%)	0.4%	0.0%	0.3%	0.5%	0.6%

(Source: Company, HDFC sec)

One-year share price data

HARSH RAJENDRA SHETH

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HDFC Sec Retail Research Rating description

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This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

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