

Weakness in sales growth & margins continues

VIP Industries clocked sales of Rs5.5bn (+6% YoY), EBITDA of Rs0.53bn (-26% YoY) and PBT (before exceptional) of Rs0.19bn (-63%). Volumes grew by 10% for 2Q/1H. Sales growth remained subdued on account of weakness in CSD and Export sales (13% of sales in 1HFY24). Trade channel (online and offline) grew by 15% in 1H with e-commerce growing by 50%. Gross margins improved by 740bps on a YoY basis to 55.5%. Improved GM profile was on account of better product mix (+2%) and favorable polymer prices. Decline in EBITDA margins (-422bps) was largely on account of higher performance marketing expenses (Rs260mn in 2Q) related to e-commerce channel. Historically (pre-COVID) 1H is strong led by 1Q. Keeping weak 1H in context, we have cut our FY24/25 estimates by 27/18% respectively. We expect VIP to grow its sales/EBITDA/PAT at CAGR of 12/11/17% over FY23-26E. We downgrade to ADD valuing at 40x (earlier 43x) 1HFY26E EPS to arrive at target price of Rs638.

Weakness in growth and operating performance persists

Weakness in sales growth persisted led by CSD channel and international business. Sales contribution from these two declined from 17 to 13% in 1HFY24. CSD sales were impacted due to a largescale range refreshment while International business suffered with demand slowdown in middle east and increase in global China supplies. Slower secondary sales in Q1 impacted Q2 performance for primary driven offline trade channels like GT & MT. Growth was largely led by e-commerce channel, which grew by 50% and salience increasing from 15% in 1HFY23 to 21% in 1HFY24. OPM remained subdued (despite favourable mix by 2%) at 9.7% led by higher performance marketing spends (Rs260mn) for e-com. Growth rates will pick up in 2H due to strong marriage & festive season while margins are expected to improve by 500bps in 2H over 1H.

Improvement in premiumization trend in 2Q

Continued shift from unorganized to organized segment has led value segment to grow at a faster clip since the onset of pandemic. Contribution from mass premium (Aristocrat and Alfa brands) has increased sharply from 27% in 4QFY20 to 39% in 1HFY24. However, in 2Q premiumization trend picked up a bit wherein Skybags (premium range) grew by 10% while Aristocrat & Alfa by 8%. Management has guided that in coming quarters focus will be towards driving the premiumization trend.

Industry growth rate better compared to VIP

As per the management estimates, luggage industry grew its sales by 20-25% in 2Q vs. 6% growth for VIP. Management has alluded subpar growth (FY20-1HFY24) is on account of internal issues of past including frequent top leadership changes and weakness in premiumization trend due to shift in supply chain from China to Bangladesh. We believe the course correction exercise will take time and hence cut our earnings estimates.

Valuation and key risks

We expect VIP to grow its sales/EBITDA/PAT at CAGR of 12/11/17% over FY23-26E. We downgrade to ADD valuing at 40x (earlier 43x) 1HFY26E EPS to arrive at target price of Rs638.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	5,461	5,147	6.1	6,361	(14.2)	22,905	26,112	29,245
EBITDA	529	716	(26.1)	806	(34.4)	2,764	3,698	4,282
EBITDA margin (%)	9.7	13.9	(30.4)	12.7	(23.6)	12.1	14.2	14.6
Adj. Net profit	133	434	(69.4)	320	(58.5)	1,395	2,043	2,466
Adj. EPS (Rs)	0.9	3.1	(69.5)	2.3	(58.5)	9.9	14.5	17.4
EPS growth (%)						(24.4)	46.4	20.7
PE (x)						61.6	42.1	34.9
EV/EBITDA (x)						31.2	23.1	19.6
PBV (x)						11.8	10.3	8.9
RoE (%)						20.4	26.2	27.3
RoCE (%)						19.1	24.7	25.9

Source: Company, Centrum Broking

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Result Update

India | Luggage

01 November, 2023

ADD

Price: Rs609

Target Price: Rs638

Forecast return: 5%

Institutional Research

Market Data

Bloomberg:	VIP IN
52 week H/L:	765/549
Market cap:	Rs86.5bn
Shares Outstanding:	141.9mn
Free float:	50.4%
Avg. daily vol. 3mth:	10,89,496

Source: Bloomberg

Changes in the report

Rating:	Downgrade to Add
Target price:	-16%; Rs638 from Rs762
EPS:	FY24E: -27%; FY25E: -18%

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	51.2	51.3	51.3	51.3
FIIs	7.8	9.0	9.0	9.3
DIIIs	14.7	20.8	20.9	19.9
Public/other	26.3	18.9	18.8	19.5

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	5,508	5,461	-0.9
EBITDA	576	529	-8.1
EBITDA margin %	10.5	9.7	-80bps
PBT	285	193	-32.5
Adj. PAT	214	133	-37.8

Source: Bloomberg, Centrum Broking



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Luggage

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	22,905	23,322	-1.8	26,112	26,820	-2.6
EBITDA	2,764	3,610	-23.4	3,698	4,366	-15.3
EBITDA margin	12.1	15.5	-340bps	14.2	16.3	-210bps
Adj. PAT	1,653	2,272	-27.2	2,043	2,505	-18.4
Diluted EPS (Rs)	11.7	16.1	-27.2	14.5	17.7	-18.4

Source: Centrum Broking

VIP Industries versus NIFTY Midcap 100

	1m	6m	1 year
VIP IN	(7.1)	2.6	(18.4)
NIFTY Midcap 100	(4.1)	22.3	23.7

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Revenue growth (%)	10.0	14.0	12.0
Gross Margin (%)	53	53.2	53.5
EBITDA Margin (%)	12.1	14.2	14.6

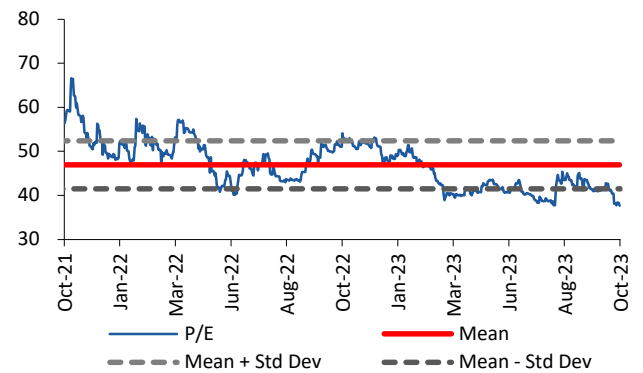
Source: Centrum Broking

Valuations

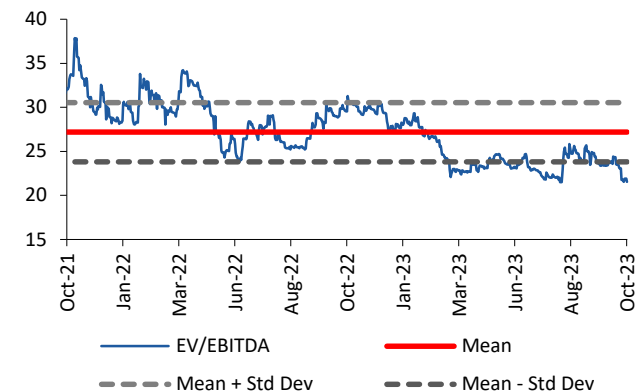
We expect VIP to grow its sales/EBITDA/PAT at CAGR of 12/11/17% over FY23-26E. We downgrade to ADD valuing at 40x (earlier 43x) 1HFY26E EPS to arrive at target price of Rs638, an upside of 5%.

Valuations	Rs/share
1HFY26E EPS	16
Target Multiple (X)	40
Target Price	638

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking; Note: EBITDA and EPS negative in FY21

Peer comparison

Company	Mkt cap Rs bn	CAGR (FY20-25E) (%)			P/E (x)			FY23	
		Sales	EBITDA	EPS	FY23	FY24E	FY25E	RoE (%)	RoCE (%)
Safari Industries	98	21.3%	36.1%	45.3%	78.5	55.9	46.6	34.4	32.9
V.I.P. Industries	86	8.8%	4.7%	5.0%	56.5	52.0	42.1	30.7	27.6

Source: Company, Centrum Broking, Note: Safari 4QFY23 results yet to be declared

Exhibit 1: 2QFY24 – Financial Snapshot

Y/E March (Rsmn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY23	1HFY24	YoY (%)
Revenues	5,461	5,147	6.1	6,361	(14.2)	11,054	11,822	7.0
Raw material	2,430	2,671	(9.0)	3,214	(24.4)	5,628	5,644	0.3
Gross Profits	3,031	2,477	22.4	3,147	(3.7)	5,426	6,178	13.9
Gross Margins (%)	55.5	48.1	739bps	49.5	603bps	49.1	52.3	317bps
Other expenses	1,841	1,183	55.6	1,678	9.7	2,504	3,518	40.5
Total expenditure	4,932	4,432	11.3	5,555	(11.2)	9,312	10,487	12.6
EBITDA	529	716	(26.1)	806	(34.4)	1,742	1,335	-23.4
EBITDAM (%)	9.7	13.9	-422bps	12.7	-299bps	15.8	11.3	-447bps
Depreciation	238	180	32.6	209	14.1	360	447	24.2
Interest	124	69	78.6	108	14.8	135	231	71.8
Other income	26	53	(51.3)	26	(2.7)	123	52	-57.7
PBT (ex excep.)	193	285	(32.5)	774	(75.1)	1,521	1,439	-5.4
Tax	60	86	(30.1)	196	(69.5)	396	256	-35.3
Net profit	133	434	(69.4)	578	(77.0)	1,125	710	-36.9
EPS (Rs.)	0.94	3.06	(69.5)	4.08	(77.0)	8.0	5.0	-37.1

Source: Company, Centrum Broking

Exhibit 2: Quarterly P&L trend

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Sales	3,973	3,559	5,906	5,147	5,264	4,506	6,361	5,461
YoY(%)	70.8	46.5	186.4	56.0	32.5	26.6	7.7	6.1
Cost of Goods Sold	2,030	1,663	2,957	2,671	2,662	1,899	3,214	2,430
Gross Profit	1,944	1,896	2,949	2,477	2,602	2,607	3,147	3,031
Gross Margins (%)	48.9	53.3	49.9	48.1	49.4	57.9	49.5	55.5
Employee Expenses	499	556	602	578	595	581	663	662
YoY(%)	62.8	43.6	54.7	15.9	19.3	4.5	10.2	11.2
Other Expenses	873	1,014	1,321	1,183	1,278	1,383	1,678	1,841
%sales	22.0	28.5	22.4	23.0	24.3	30.7	26.4	33.7
Total Expenses	3,402	3,233	4,880	4,432	4,534	3,863	5,555	4,932
EBITDA	572	326	1,026	716	730	643	806	529
EBITDAM(%)	14.4	9.2	17.4	13.9	13.9	14.3	12.7	9.7
Depreciation	174	170	180	180	181	196	209	238
EBIT	397	156	846	536	549	447	597	291
EBIT(%)	10.0	4.4	14.3	10.4	10.4	9.9	9.4	5.3
Other Income	94	58	71	53	26	45	26	26
Interest Cost	54	54	65	69	66	84	108	124
PBT	437	160	1,001	520	509	-64	774	193
PBT(%)	11.0	4.5	16.9	10.1	9.7	-1.4	12.2	3.5
PAT	335	124	691	434	441	-43	578	133
PAT(%)	8.4	3.5	11.7	8.4	8.4	-0.9	9.1	2.4
EPS	2.4	0.9	4.9	3.1	3.1	(0.3)	4.1	0.9

Source: Company, Centrum Broking

Exhibit 3: Category-wise revenue mix - Quarterly (%)

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Uprights									
Hard luggage	47%	47%	49%	49%	50%	47%	49%	48%	52%
Soft luggage	29%	30%	29%	28%	25%	28%	25%	25%	25%
Duffel bags	10%	10%	9%	7%	8%	9%	7%	7%	7%
Backpacks	11%	10%	9%	12%	12%	12%	15%	12%	14%
Ladies hand bags	4%	3%	2%	4%	4%	4%	4%	8%	1%

Source: Company, Centrum Broking; Note: FY21 data not available

Exhibit 4: Category-wise revenue mix - Annual (%)

	FY20	FY22	FY23
Uprights			
Hard luggage	32%	46%	49%
Soft luggage	33%	30%	26%
Duffel bags	10%	9%	8%
Backpacks	18%	10%	13%
Ladies hand bags	6%	4%	4%

Source: Company, Centrum Broking; Note: FY21 data not available

Exhibit 5: Brand-wise revenue mix - Quarterly (%)

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Premium & Mass premium									
Carlton	5%	5%	5%	4%	6%	6%	6%	6%	4%
VIP	21%	23%	23%	23%	21%	23%	23%	20%	20%
Skybags	36%	31%	33%	32%	32%	30%	33%	29%	33%
Value									
Aristocrat + Alfa	33%	39%	36%	36%	37%	38%	35%	40%	38%
Caprese	4%	3%	2%	4%	4%	4%	4%	4%	4%

Source: Company, Centrum Broking; Note: FY21 data not available

Exhibit 6: Brand-wise revenue mix - Annual (%)

	FY20	FY22	FY23
Premium & Mass premium			
Carlton	5%	5%	6%
VIP	27%	23%	23%
Skybags	37%	33%	31%
Value			
Aristocrat + Alfa	25%	36%	36%
Caprese	6%	4%	4%

Source: Company, Centrum Broking; Note: FY21 data not available

Exhibit 7: Channel-wise revenue mix - Quarterly (%)

	3QFY22	4QFY22	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
General trade	23%	22%	18%	24%	22%	27%	16%
Retail trade	11%	12%	11%	11%	11%	9%	11%
Modern trade	34%	25%	27%	29%	29%	30%	24%
Ecom	14%	11%	22%	13%	11%	13%	30%
CSD CPC	10%	20%	12%	12%	16%	10%	8%
Institutional	6%	7%	6%	8%	6%	6%	6%
International	3%	3%	5%	4%	4%	5%	3%

Source: Company, Centrum Broking; Note: FY21, 1QFY22 and 1QFY23 data not available

Exhibit 8: Exhibit 8: Channel-wise revenue mix - Annual (%)

	FY20	FY22	FY23
General trade	23%	20%	23%
Retail trade	14%	10%	11%
Modern trade	31%	28%	28%
Ecom	9%	16%	14%
CSD CPC	14%	17%	12%
Institutional	6%	6%	7%
International	3%	3%	4%

Source: Company, Centrum Broking; Note: FY21 data not available

2QFY24 conference call KTAs

Introductory Remarks

- Positives out of 2Q results: GM at 55%
- 37 EBOs, added 57 cities, signed 6 airports for exclusive Carlton stores
- Skybags: +12%, Aristocrat growing fastest, Caprese too did well
- Soft luggage picked up in 2Q due to manufacturing at Bangladesh sorted out
- 2H expected to be very good led by strong marriage season
- E-commerce as a channel did well contributing 31% to total sales
- CSD as channel did perform as per expectation due to refreshment of inventory

Reasons for GM improvement:

- Crude price reduction which happened two quarters back is getting reflected now
- Also, mix was favourable by 2%
- GM across channel: Retail (EBO) > General Trade > Modern Trade (MT) and E-commerce

Reasons for higher other expenses:

- Rs56cr in 2QFY24 vs. Rs30cr in 2QFY23
- Rs15cr on freight and handling
- Rs6cr for BCG
- Rs26cr for performance marketing for e-commerce channel (led to sales contribution of 31% to e-commerce); part of Rs56cr other expenses
- Performance marketing was Rs12cr in 1Q

Industry growth in 2Q:

- +20-25% in 2Q

Peers outgrowing VIP:

- More to do with internal issues of VIP
- Number of newer launches were weak in 1H, 26 in pipeline in 2H
- Export market weakness
- Will focus on expanding HL capacity (Rs50cr), no longer going for soft luggage capacity expansion (earlier guided for large part of Rs200cr capex in SL for two new plants – one in India and one in Bangladesh)

Reasons for weaker growth over last 4 years:

- Management churn, lower morale due to churn
- Also, company shifted from outsourcing from China to Bangladesh (in-house manufacturing) during the pandemic
- Manufacturing skills of Bangladesh unit was not on par with China and hence company could not grow in premium segment in last 3-4 years

EBITDA margin improvement in 2H:

- Should be better by 500bps over 1H
- Comfortable maintaining GM of 53-55%, anything over and above 55% will be utilized for business development

Levers for improvement in inventory days going forward:

- In past forecasting used to be completely in hand with sales team
- Now it will be part of HO and sales team

Capex guidance:

- Current capacity of 17L pieces and will take it to 20L pieces in short term
- Spent Rs25-30cr in 1H
- Total spend in FY24: Rs80-85cr

EBO expansion:

- Opened 60+ EBOs in 1H and expect to add total of 100+ EBOs
- Most newly added are franchisee EBOs

Strategy around Caprese:

- will be having Caprese products across all the VIP stores
- All the Carlton stores will have one wall for Caprese products

Rumours of being on block:

- going on since many years
- company remains focused on growing the business

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	12,895	20,823	22,905	26,112	29,245
Operating Expense	6,450	10,188	10,765	12,220	13,599
Employee cost	1,887	2,356	2,733	3,143	3,615
Others	3,114	5,141	6,643	7,050	7,750
EBITDA	1,444	3,138	2,764	3,698	4,282
Depreciation & Amortisation	700	737	778	865	905
EBIT	744	2,401	1,986	2,834	3,377
Interest expenses	246	285	285	285	285
Other income	364	171	160	183	205
PBT	862	2,287	1,862	2,732	3,297
Taxes	192	442	466	688	831
Effective tax rate (%)	22.3	19.3	25.0	25.2	25.2
PAT	669	1,845	1,395	2,043	2,466
Minority/Associates	0	0	0	0	0
Recurring PAT	669	1,845	1,395	2,043	2,466
Extraordinary items	0	(322)	258	0	0
Reported PAT	669	1,523	1,653	2,043	2,466

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	108.5	61.5	10.0	14.0	12.0
EBITDA	nm	117.3	(11.9)	33.8	15.8
Adj. EPS	nm	175.7	(24.4)	46.4	20.7
Margins (%)					
Gross	50.0	51.1	53.0	53.2	53.5
EBITDA	11.2	15.1	12.1	14.2	14.6
EBIT	5.8	11.5	8.7	10.9	11.5
Adjusted PAT	5.4	6.7	7.2	7.8	8.4
Returns (%)					
ROE	12.4	30.7	20.4	26.2	27.3
ROCE	12.7	27.6	19.1	24.7	25.9
ROIC	7.5	21.3	16.6	22.9	26.8
Turnover (days)					
Gross block turnover ratio (x)	6.6	8.3	7.0	6.9	7.1
Debtors	52	42	41	39	39
Inventory	232	198	194	174	174
Creditors	123	106	105	100	101
Net working capital	126	89	74	70	68
Solvency (x)					
Net debt-equity	0.2	0.2	0.0	(0.1)	(0.2)
Interest coverage ratio	5.9	11.0	9.7	13.0	15.0
Net debt/EBITDA	0.7	0.5	0.1	(0.2)	(0.4)
Per share (Rs)					
Adjusted EPS	4.7	13.1	9.9	14.5	17.4
BVPS	39.6	45.4	51.5	59.1	68.5
CEPS	9.7	18.3	15.4	20.6	23.9
DPS	2.5	4.5	4.9	6.0	7.3
Dividend payout (%)	52.8	41.8	41.8	41.8	41.8
Valuation (x)					
P/E	128.5	46.6	61.6	42.1	34.9
P/BV	15.4	13.4	11.8	10.3	8.9
EV/EBITDA	60.3	27.9	31.2	23.1	19.6
Dividend yield (%)	0.4	0.7	0.8	1.0	1.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	283	283	283	283	283
Reserves & surplus	5,314	6,134	6,989	8,070	9,398
Shareholders fund	5,597	6,417	7,272	8,354	9,681
Minority Interest	0	0	0	0	0
Total debt	1,227	1,810	1,310	1,310	1,310
Non Current Liabilities	1,528	1,471	1,601	1,730	1,860
Def tax liab. (net)	9	5	5	5	5
Total liabilities	8,361	9,702	10,187	11,399	12,856
Gross block	1,950	2,495	3,295	3,795	4,095
Less: acc. Depreciation	(970)	(1,012)	(1,277)	(1,583)	(1,914)
Net block	980	1,483	2,018	2,212	2,181
Capital WIP	71	147	147	147	147
Net fixed assets	1,071	1,651	2,186	2,380	2,349
Non Current Assets	2,229	2,383	2,150	1,873	1,580
Investments	407	225	225	225	225
Inventories	5,184	5,871	5,546	6,128	6,819
Sundry debtors	2,185	2,554	2,606	2,971	3,328
Cash & Cash Equivalents	207	365	981	1,922	3,223
Loans & advances	0	0	0	0	0
Other current assets	1,020	1,105	1,105	1,105	1,105
Trade payables	2,824	3,087	3,123	3,545	3,945
Other current liab.	1,001	1,251	1,376	1,546	1,713
Provisions	117	114	114	114	114
Net current assets	4,654	5,444	5,626	6,922	8,703
Total assets	8,361	9,702	10,187	11,399	12,856

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	862	1,965	2,120	2,732	3,297
Depreciation & Amortisation	700	737	778	865	905
Net Interest	31	202	124	102	80
Net Change – WC	(1,901)	(962)	392	(396)	(522)
Direct taxes	(86)	(519)	(466)	(688)	(831)
Net cash from operations	(237)	1,749	2,948	2,614	2,929
Capital expenditure	(365)	(1,069)	(1,313)	(1,059)	(874)
Acquisitions, net	0	0	0	0	0
Investments	1,688	204	0	0	0
Others	138	21	393	461	498
Net cash from investing	1,461	(845)	(920)	(598)	(376)
FCF	1,224	904	2,028	2,016	2,553
Issue of share capital	0	0	(107)	(107)	(107)
Increase/(decrease) in debt	(310)	583	(500)	0	0
Dividend paid	(355)	(638)	(692)	(855)	(1,032)
Interest paid	(147)	(164)	(285)	(285)	(285)
Others	(443)	(527)	171	171	171
Net cash from financing	(1,255)	(746)	(1,412)	(1,075)	(1,252)
Net change in Cash	(31)	158	616	941	1,301

Source: Company, Centrum Broking

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VIP Industries



Source: Bloomberg

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