BODHI CAPITAL

An Initiative of ABC | INVESTMENTS

VIP

VIP Industries

Ashu Jain and Maria Ben

Introduction

- Company: VIP Industries
- Analyst Take: Buy
- Current Price (15/06/2020): Rs 249.4
- CRISIL Rating (long term): **AA/Stable**
- Market Cap: Rs 3495 crores

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COMPANY OVERVIEW

- VIP Industries Ltd. is **Asia's largest and the world's second largest luggage architect**, headquartered in Mumbai. A public limited Indian company manufacturing luggage and travel accessories, VIP Industries Ltd. has more than **8000 retail outlets** in its armoury apart from a well-developed network of **retailers in 50 countries**.
- VIP Industries Ltd. journey began in 1971 and till date VIP Industries Ltd. has sold over 100 million pieces of luggage to travellers and became the **leading manufacturer of hard and soft luggage** in Asia, with a goal to make travel simple and convenient.
- VIP sells both hard (25-30%) and soft luggage (70-75%).
- VIP Industries already has a **global footprint** with its products available all over Middle East, the UK, USA, Germany, Spain, Italy and select African and South East Asian countries.
- The company divides its operations under three segments namely, **business travel, leisure travel and marriage.**

Source: Company Investor Deck Presentation

Source: Simply Wall Street

Key Business Segments

Exhibit 1: Product portfolio catering across segments

Value segment; Luggage, backpacks	Positioned as youth centric brand; Luggage, backpacks	Company's flagship brand; Luggage, backpacks	One of leading brands for ladies handbags; Handbags, accessories	Caters to young business traveler in super-premium category; Luggage
ARISTOCRAT (UNPACK YOUR DREAMS); ALFA	Skybags	VIP	CAPRESE	CARLTON

Source: ICICI Direct Research Report

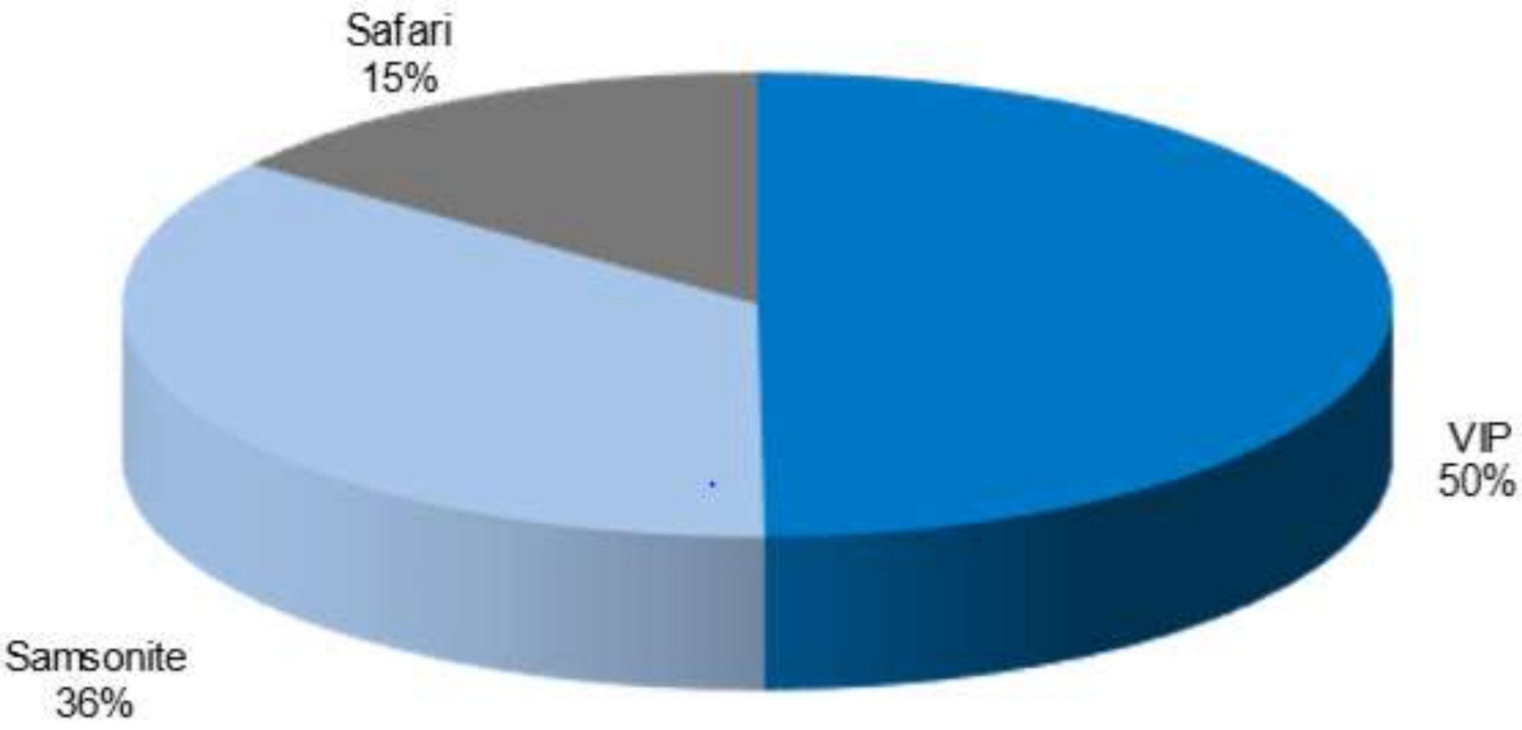
Exhibit 19: Well diversified product portfolio across categories

Brand	Year of launch	Typical price point	Brand positioning	Key competitors	Product type	Channel dominance	Revenue contribution	Margin hierarchy
Carlton	2004	Rs6,000-8,000. Carlton Edge range is higher	Premium	Samsonite	Luggage	EBOs	~7-8%	Both Carlton & Caprese have highest margin within the product portfolio
Caprese	2013	Rs1,500-4,000	Premium	Lavie, Baggit, Esbeda, Unorganized	Handbag	Modern trade, EBOs, E-com		
VIP	1971	Rs4,000-6,000	Economy	American Tourister, Samsonite, Safari	Luggage, backpacks	NA	~70-75%	Lower than Carlton & Caprese but higher than Aristocrat & Alfa
Skybags	2011	Rs4,000-6,000	Economy	American Tourister, Samsonite, Safari	Luggage, backpacks	NA		
Aristocrat	2008	Sub Rs4,000	Mass	Safari, Kamiliant, Unorganized	Luggage, backpacks	Hypermarket, E-com	~20%	Lowest margin within the product portfolio
Alfa	1989	Sub Rs3,000	Mass	Safari, Kamiliant, Unorganized	Luggage	Traditional dealer channel		

Source: Company, PL, Media articles

PS: 1) The company does not share brand wise sales figures. Hence, revenue contribution figure is arrived based on information available in public domain 2) Typical price point figures are based on our channel checks.

Exhibit 5: VIP is the market leader in luggage industry



Source: Company, PL

PS: Market share is calculated on latest fiscal revenue of all the 3 players

Ms Radhika Piramal mentioned of having 55% market share in the Q4 2020 earnings call.

Shareholding Summary for VIP Industries Ltd.

Type	Holding
Promoter	53.46
MF	10.4
FII	4.76
Other Institutions	3.2
Public	28.17
Others	0.01

Source: Trendlyne

SHAREHOLDING PATTERN		
Category of Shareholders	**No. of Shares**	**%**
Promoter	7,55,44,637	53.46
Mutual Funds and UTI	99,39,577	7.03
Banks, Financial Institution and Insurance Companies	1,83,847	0.13
Foreign Financial Investors & Foreign Nationals	1,23,01,445	8.70
Bodies Corporate	56,83,227	4.02
Indian Public/Trust/HUF	3,12,93,283	22.14
Non Resident Individuals/ Overseas Corporate Bodies	18,63,651	1.32
Alternate Investment Fund	28,01,392	1.98
Market Marker/Clearing members	3,50,870	0.25
NBFC Registered with RBI	41,105	0.03
Any other (IEPF)	13,14,281	0.94
Total	**14,13,17,315**	**100.00**

Source: Annual Report

Changes in Shareholding Pattern:

- Promoters holding marginally changed to 53.46% as of Mar 2020 qtr.
- FII/FPI have decreased their holdings by 1.92% of holdings in Mar 2020 qtr.
- Number of FIIs/FPIs holding stock fell by 6 to 111 in Mar 2020 qtr.
- Mutual Funds have increased their holdings by 1.27% of holdings in Mar 2020 qtr.
- Number of Mutual Funds holding stock is unchanged at 16 in Mar 2020 qtr.
- Institutional Investors holding marginally changed to 18.36% as of Mar 2020 qtr.

COVID IMPACT ASSESSMENT

- **Impact on Business Operations:** operations of the Company substantially got effected from mid of March, 2020 due to

1. closure of factories of the Company
2. disruption of supply chain
3. closure of malls and shops across the country.

This has impacted sales of the Company for Q4 2019-20 with an estimated impact (based on best judgment) of approx Rs. 120 Crores. The negative impact on sales is expected to continue in FY 20-21 and company expect sales for 20-21 to be around 50% of 19-20 sales.

- **Supply Chain:** The supply chain has been disrupted due to lockdown and unless the full supply chain resumes back to normal the availability of raw materials, packing material, etc is an issue. However since Company has enough stocks at this stage it will not have any adverse impact.

- **Demand for its products:** the Company's products falls under the non-essential categories, thus the demand for its products will remain low and will tend to witness a recovery in demand once the situations gets normalize.

- **Liquidity Position:** The Company had Net Cash (31st March 2020) to meet requirements and does not foresee any liquidity crunch. It has further raised its borrowing by Rs. 100 crore and it was able to reduce its inventory during the financial year 2019-20 despite of COVID.
- **Debt servicing ability:** No impact on debt servicing ability. The Company discharged its liability towards lenders well within time and has sufficient cash reserves and unutilised banking lines to draw down in case of emergency.
- **Provisions:** 4 crores of provision for inventory and 8-8.5 crores of provision for debtors.
- **Coming back of channels:** E-Commerce will come back faster, CSD is the next followed by modern trade. The company sees general trade distributors and dealers being a bit slower and within e-commerce they have indicated that between luggage and backpacks customers would be more interested in backpacks.

STEPS TAKEN FOR COVID/ COMPANY ON COVID/ CONFERENCE CALL HIGHLIGHTS

- 30% reduction in the cost through reduction of people on the field, waivers and reduction in rental.
- Used to spend around Rs.100 Crores a year on advertising which will be more or less negligible in this year.
- Once normalcy resumes people will take short breaks (2-3 days) in cars rather than a domestic flight. One can see international tourism coming down significantly and leisure travel bouncing back earlier than business travel because of increased WFH trends.
- Gaining market share from unorganized sector seems difficult due to overall price pressure as India goes into a recession.
- The company might go up to 80% or 100% procurement from Bangladesh. Currently 55% from Bangladesh.

- 90% of the raw material for Bangladesh comes from China and the company does not see any hiccups as China has fully opened.
- Till last year the company had borrowing sanction limits of around Rs.100 Crores which they have increased now close to Rs.220 Crores and have withdrawn only Rs.100 Crores.
- Marriages (30% of sales) will certainly get postponed but will not get cancelled and are more likely to move to Q3 than Q2.
- Backpacks(fastest growing category) are 100-200 basis points less gross margin than luggage but will be the fastest to resume demand and the company aims to break even rather than worrying about product mix.
- The company's gross margin of 57.6% in Q4 2020 are sustainable unless they get into some sort of terrible price war.
- Financially strong position on liquidity despite the complete collapse of revenue. Even if the revenue forecast is nil for six months or eight months out the company does not see any issues in terms of liquidity.
- The management does not expect to make any CAPEX in the Bangladesh plant to expand capacity as the current capacity is expected to be sufficient to cover the company's expected sales volumes in FY21.

- The company has Rs. 451 Crores of inventory at cost price and depending on the demand it will either last three months, six months or nine months.
- Marriages are 30% of its sales, backpack category is around 20%-30% and the balance is travel which is leisure and business.
- Gaining market leadership within the e-commerce channel is a goal for the management team in the current fiscal.
- VIP’s market share in general trade is higher than that in modern trade.
- The company has 250 company-owned stores, all of which the company rents, and the company is expected to close 50-100 of these stores.
- Around 5-15% of industry sales are from e-commerce. The management expects this number to rise to 30% in the next few years.
- The claim(approx. Rs 48 crores) for the warehouse where fire broke out in Q1 last year should be done in FY21.
- VIP’s brands are slightly more affordable compared to Samsonite as Samsonite customers are mostly those who take many international trips a year.

BANGLADESH AND CHINA MANUFACTURING

Exhibit 23: Benefits of increasing souring from Bangladesh operations

Lowers cost	Cost of manufacturing in Bangladesh is cheaper as labour cost is one third to that of China.
Import duty savings	Import of luggage into India attracts 15% duty. However, Bangladesh is exempted from import duty resulting in direct savings.
Sourcing advantage	With captive manufacturing set-up, VIP can exercise better control over raw material purchases. This can be beneficial in times when raw materials prices fall.

Source: Company, IDBI Capital Research

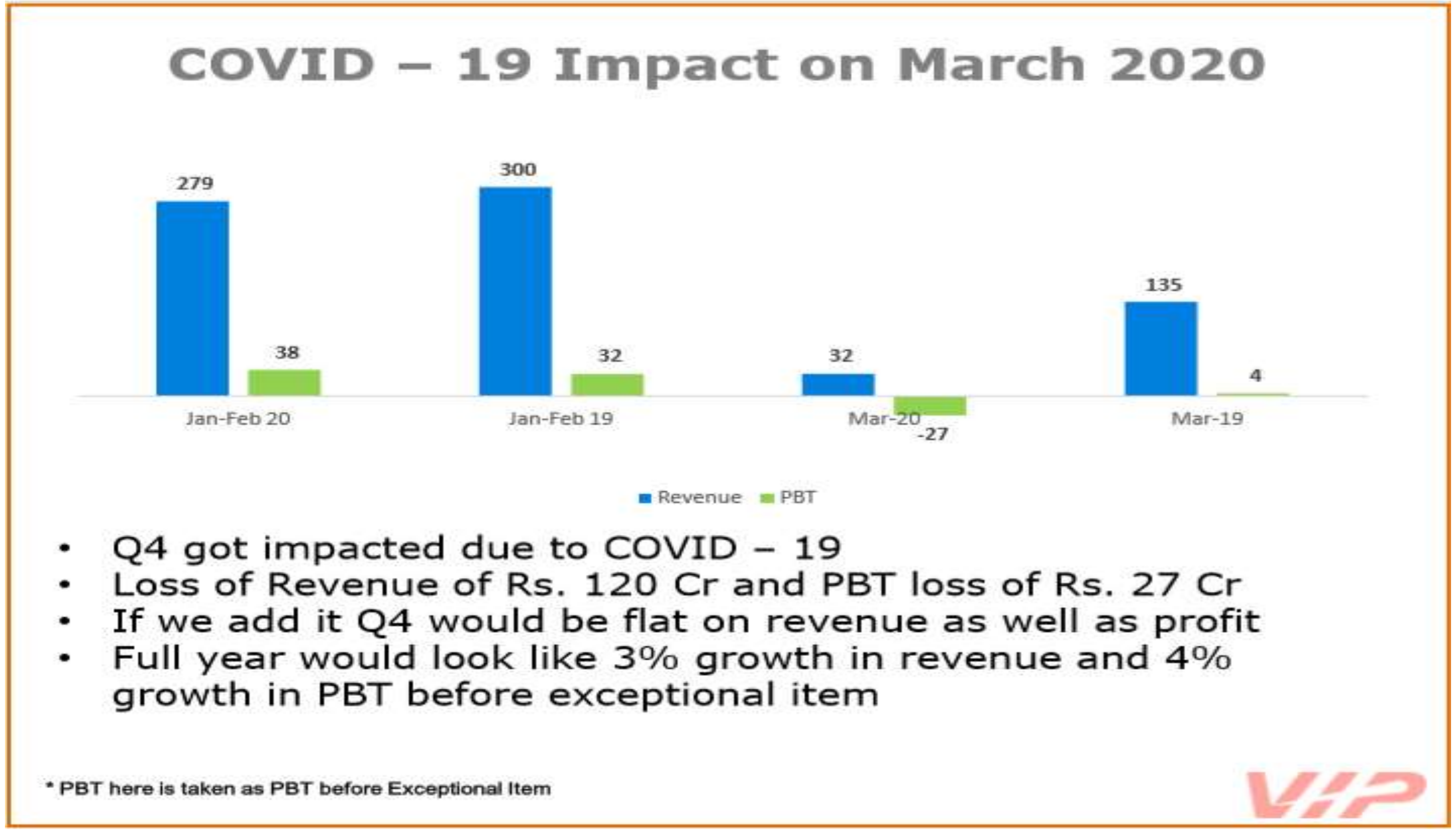
BANGLADESH AND CHINA MANUFACTURING

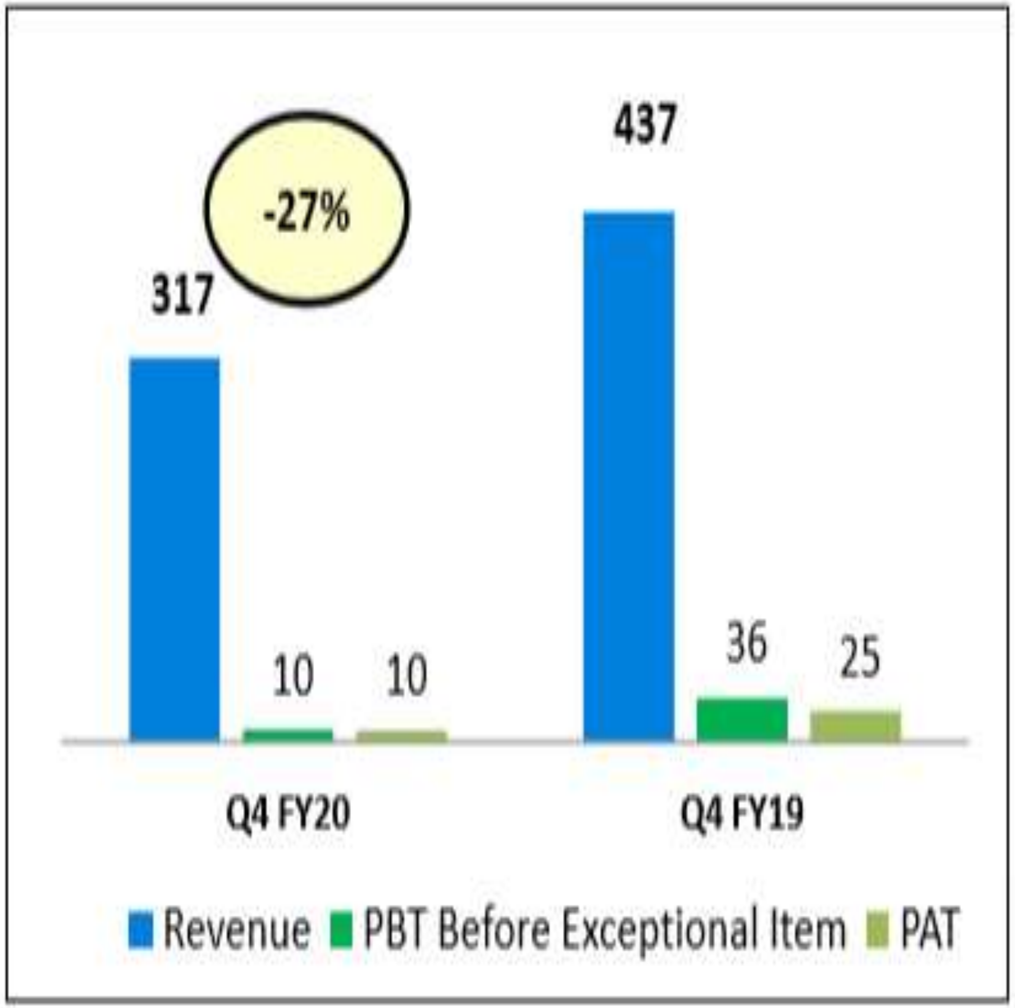
- The company's procurement from own facility in Bangladesh increased substantially from 10-15% to 55% in Q4FY20. The company might go up to 80% or 100%.
- Import duty on Chinese products is about 20% and there is no import duty from Bangladesh because of the SAFTA trade agreement.
- Bangladesh is a difficult country to operate in and it has taken the company eight years to get their act together.
- It is a low cost economy, working costs in Bangladesh are low, the labour and the duty rate is low which has helped the management in making low cost goods.

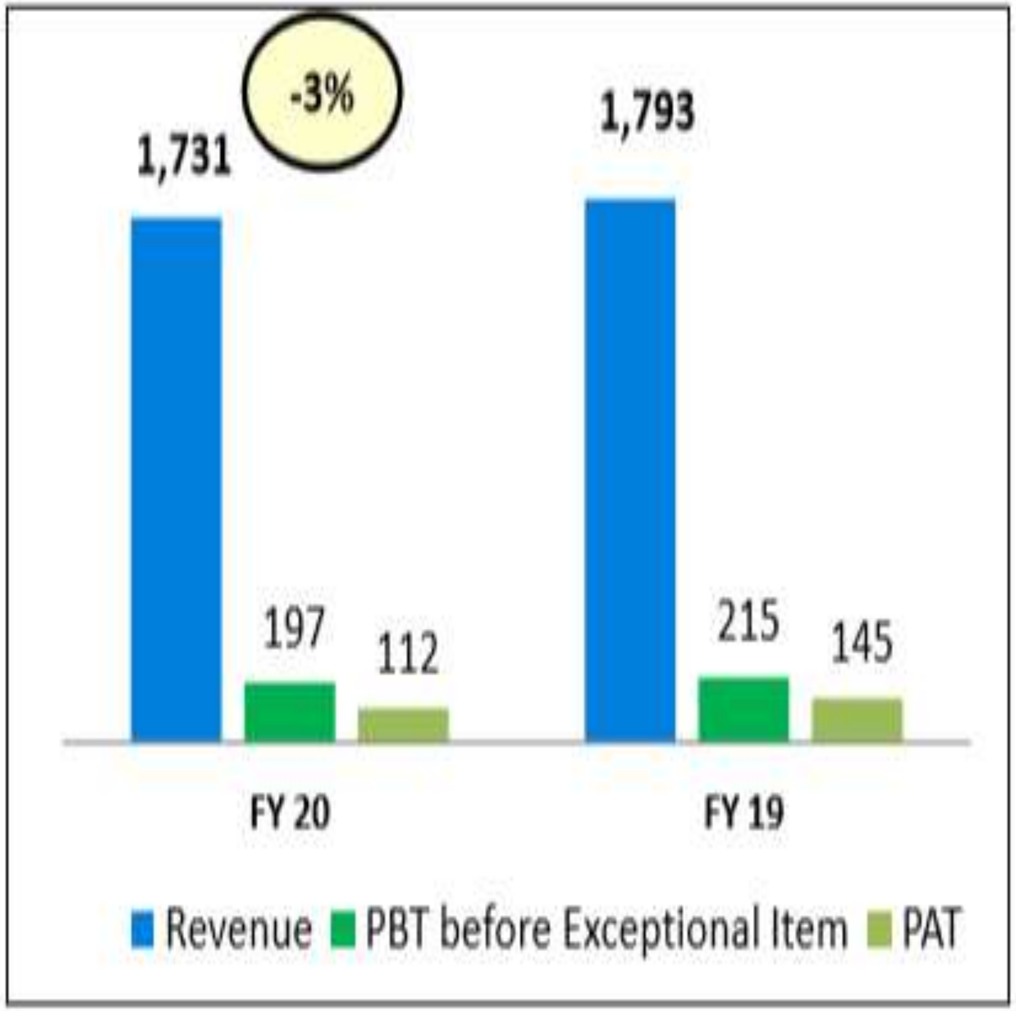
Source: Q4 earnings call

Key Highlights: (Q4 COVID IMPACT)

- Q4 revenue impacted due to COVID-19. Revenue loss of Rs. 120 cr and impact of Rs. 26 crore to profitability.
- Gross margin improvement due to higher procurement from Bangladesh, improvement in Hard Luggage share and reduction in RM costs
- Full year PBT before exceptional item is at 197 crore as compared to Rs. 215 crore in previous year




-27%
317
437
10
10
36
25
Q4 FY20
Q4 FY19
Revenue
PBT Before Exceptional Item
PAT


-3%
1,731
1,793
197
112
215
145
FY 20
FY 19
Revenue
PBT before Exceptional Item
PAT

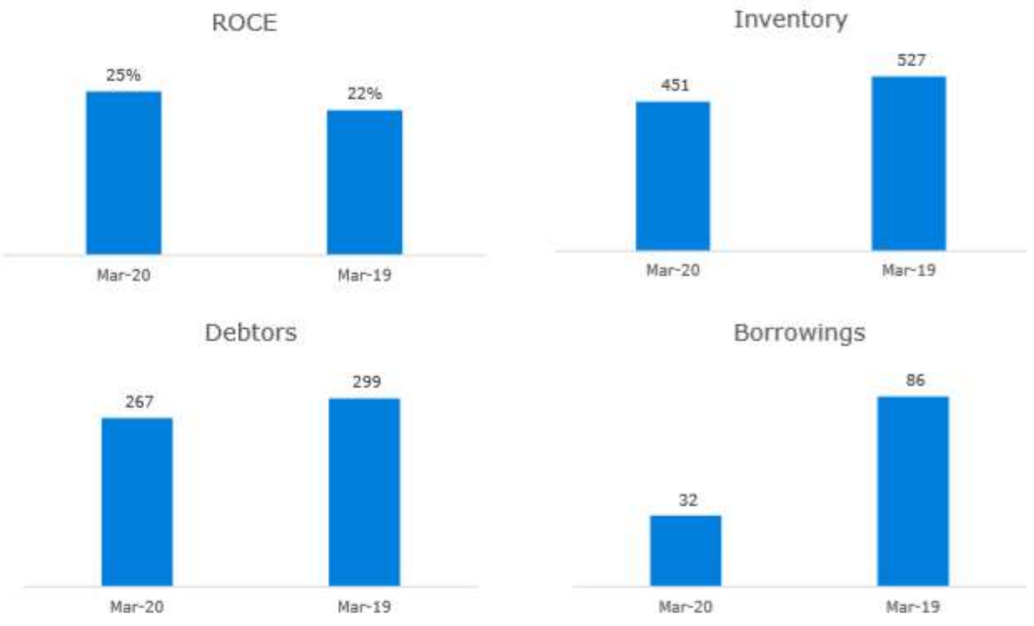
Ratios	Q4 FY20	Q4 FY19	FY 20	FY 19
Gross Margin	58%	48%	53%	50%
EBITDA to Sales	12%	10%	17%	13%
PBT Before Exceptional Item	4%	8%	12%	12%
PAT to Sales	3%	6%	9%	8%
ROCE	6%	15%	25%	22%

Source: Company Investor Deck

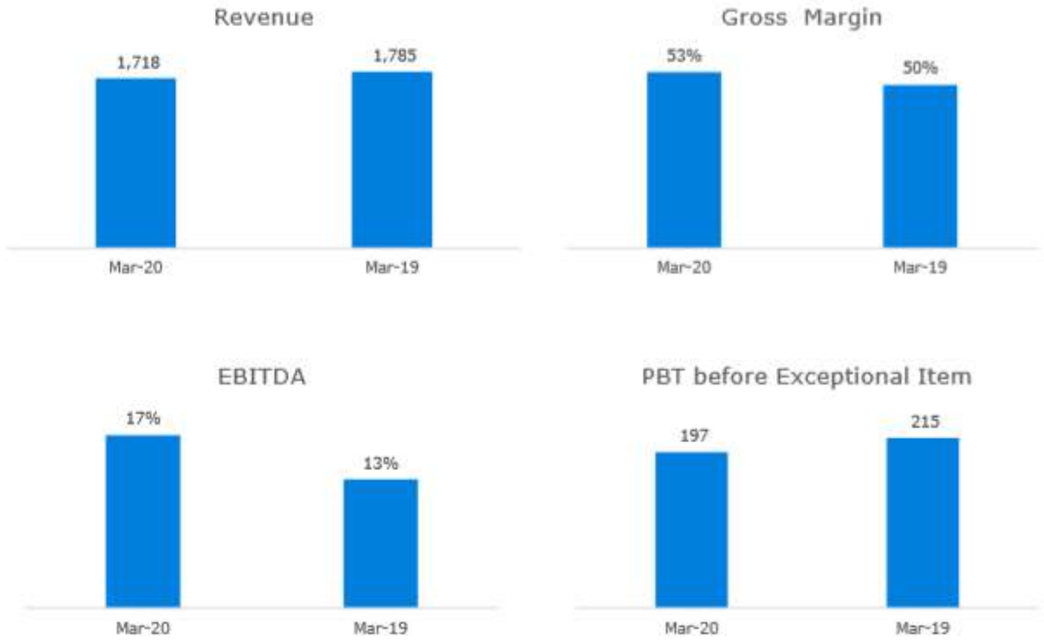
Consolidated Financial Results

Particulars	Quarter ended			Year ended		Growth
	Mar-20	Dec-19	Mar-19	Mar-20	Mar-19	%
Income from Operations	**317**	**432**	**437**	**1,731**	**1,793**	-3%
Material Consumed	132	202	228	806	904	-11%
Employee Cost	42	56	55	210	201	5%
Others Expenses	106	104	112	411	455	-10%
EBIDTA	**37**	**70**	**42**	**304**	**233**	30%
EBIDTA Margin	**12%**	**16%**	**10%**	**18%**	**13%**	35%
Depreciation	22	22	5	84	17	
Finance Cost	5	6	1	23	1	
PBT before exceptional item	**10**	**42**	**36**	**197**	**215**	-8%
Exceptional (Exp.)/Income	-	-	-	48	-	
Profit before Tax	**10**	**42**	**36**	**148**	**215**	-31%
Tax	1	8	11	37	70	-47%
Profit After Tax	**10**	**34**	**25**	**112**	**145**	-23%

Key Financial Metrics



Key Financial Metrics



QUALITATIVE ANALYSIS

MANAGEMENT

- **Mr. Dilip G. Piramal:** Chairman of the Company, is an experienced industrialist, who has pioneered luggage industry in India and having an experience of more than 45 years in the luggage industry.
- **Ms. Radhika Piramal :** Executive Vice Chairperson of VIP Industries, Ms Piramal is a graduate from Oxford University (UK) and an MBA from the Harvard Business School.
- **Sudip Ghose:** Managing Director. Mr. Sudip Ghose holds an MBA degree from NMIMS, Mumbai and has attended Clarion College of Communications for his Post Graduate Diploma studies. He has been working with the Company since April, 2013.
- **Ms.Neetu Kashiramka :** Chief Financial Officer. Ms. Neetu Kashiramka is appointed as Chief Financial Officer (CFO) and Key Managerial Personnel of the Company w.e.f. 8th April, 2020. She is a qualified chartered accountant and brings in more than 2 decades of experience in finance function across various organizations.

Ms Radhika Piramal

In 2010, Radhika Piramal took over as Managing Director and initiated strategic steps which have worked well for the company. Under her leadership, the company:

1) revamped briefcase and suitcase brands

2) re-launched soft luggage brand, Skybags in 2011

3) launched handbags (Caprese)in FY13

4) set up soft luggage plants in Bangladesh to reduce dependency on China.

Most of these initiatives have worked well for the company.

SWOT ANALYSIS

STRENGTHS

- **VIRTUALLY DEBT FREE**
- **MARKET LEADER:** The market leader with 55% market share. 2nd largest globally and the largest luggage manufacturer in Asia.
- Over the years, VIP has reached scale and size which enables it to

1) source raw materials cost-effectively,
2) spend aggressively on branding
3) launch new products on the back of its distribution strength and brand image.

- **STRONG DISTRIBUTION NETWORK:** advertising resulting in brand visibility, a wide distribution network comprising of CSD, modern trade, EBOs, MBOs, e-com. VIP has over 11,000 point of sales. It has 100 active distributors and over 1,000 active dealers, 250 EBOs and ~250 franchises.

WEAKNESSES

- **CHANGE CONSUMER PREFERENCES TOWARDS TRAVEL**
- **LARGE WORKING CAPITAL REQUIREMENT:** The luggage industry is working capital-intensive. The company has been able to prudently align its inventory level with payables, thus limiting the incremental net working capital. Any significant economic downturn can impact the working capital requirement. Inventory days typically increase in Q4 every year due to higher investment in inventories since significant sales happen in Q1.
- **DEPENDENCE ON CHINESE IMPORTS AND EXPOSURE TO COMPETITION FROM UNORGANISED SECTOR:** The soft luggage segment, used to be sourced predominantly from China, exposing the company to geographical concentration risk and forex risk of sharp rupee depreciation. However, VIP aims to reduce the supplier exposure from China through backward integration and by rationalizing other supplier options.
- **RESTRICTED ABILITY TO CHARGE PREMIUM:**Despite being a market leader in the organised segment, VIP is able to pass on increase in material prices only partially and with a lag, mainly because of intense competition from the large, unorganised segment; hence, ability to charge premium is restricted.

OPPORTUNITIES

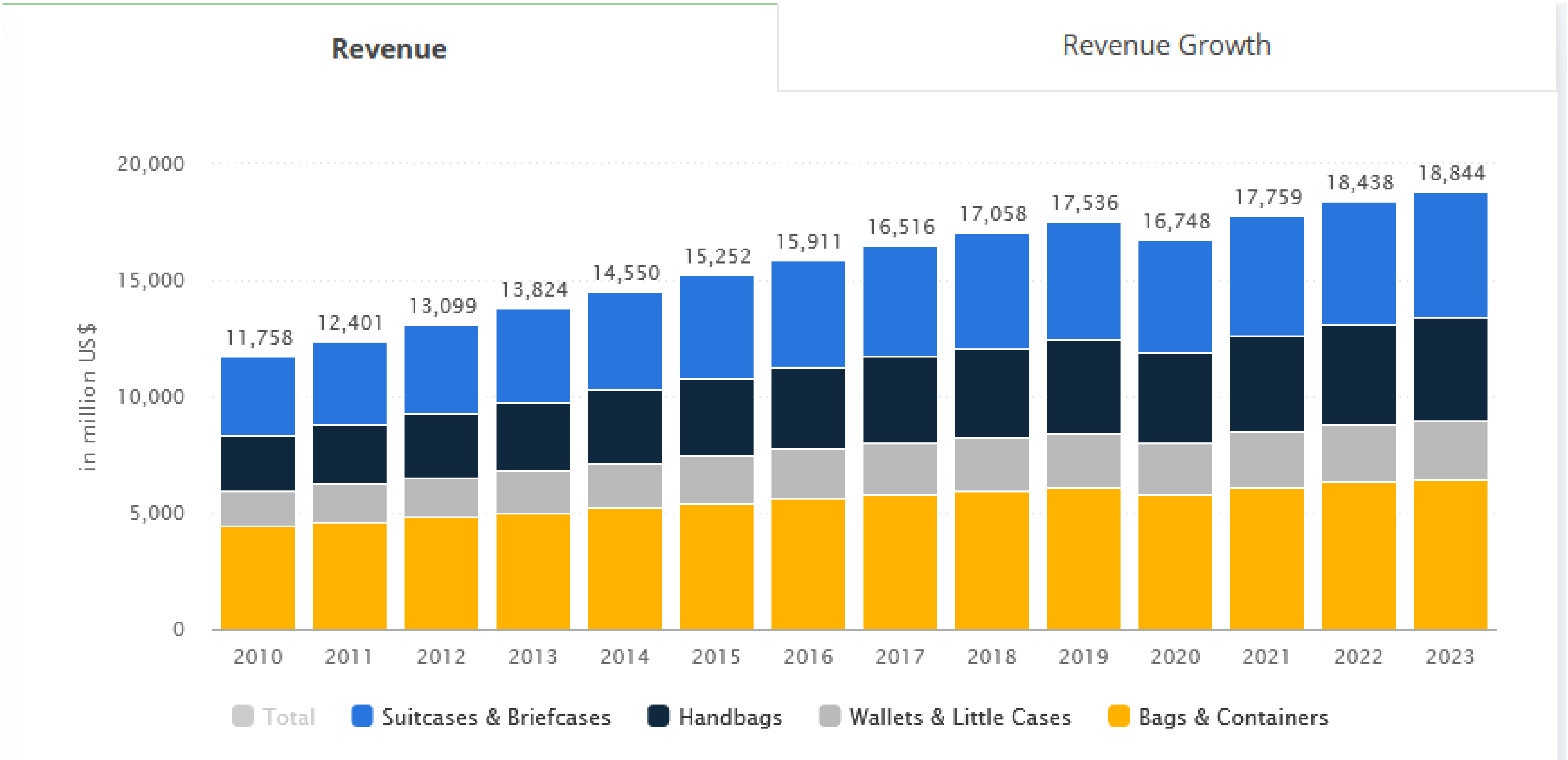
- **TRADE ISSUES BETWEEN THE US AND CHINA:** Trade issues between US and China might allow VIP to develop export business given that it has own manufacturing capacity in India and Bangladesh. (*Source: Q4 earnings call)*
- **ORGANIZED LUGGAGE TAKING OVER THE UNORGANIZED SECTOR**: VIP Industries, Samsonite and Safari Industries form nearly 90-95% per cent of the organized luggage industry – which is only 40 per cent of the entire sector -- in terms of market share.
- **RISING CONTRIBUTION FROM BANGLADESH PLANT TO IMPROVE MARGINS:** VIP has steadily raised supplies from its fully owned subsidiaries in Bangladesh which will be margin accretive.
- **GST IMPLEMENTATION:** GST implementation brought unorganized players within the tax net reducing pricing gap making organized players more competitive. Pre GST era resulted in blended tax rate of ~27%. However, the effective indirect tax rate was ~18%. Given that the GST rate is reduced from 28% to 18% recently, the overall tax impact on the luggage industry post implementation of GST is neutral. (*Source: Prabhudas Liladher Report)*

THREATS

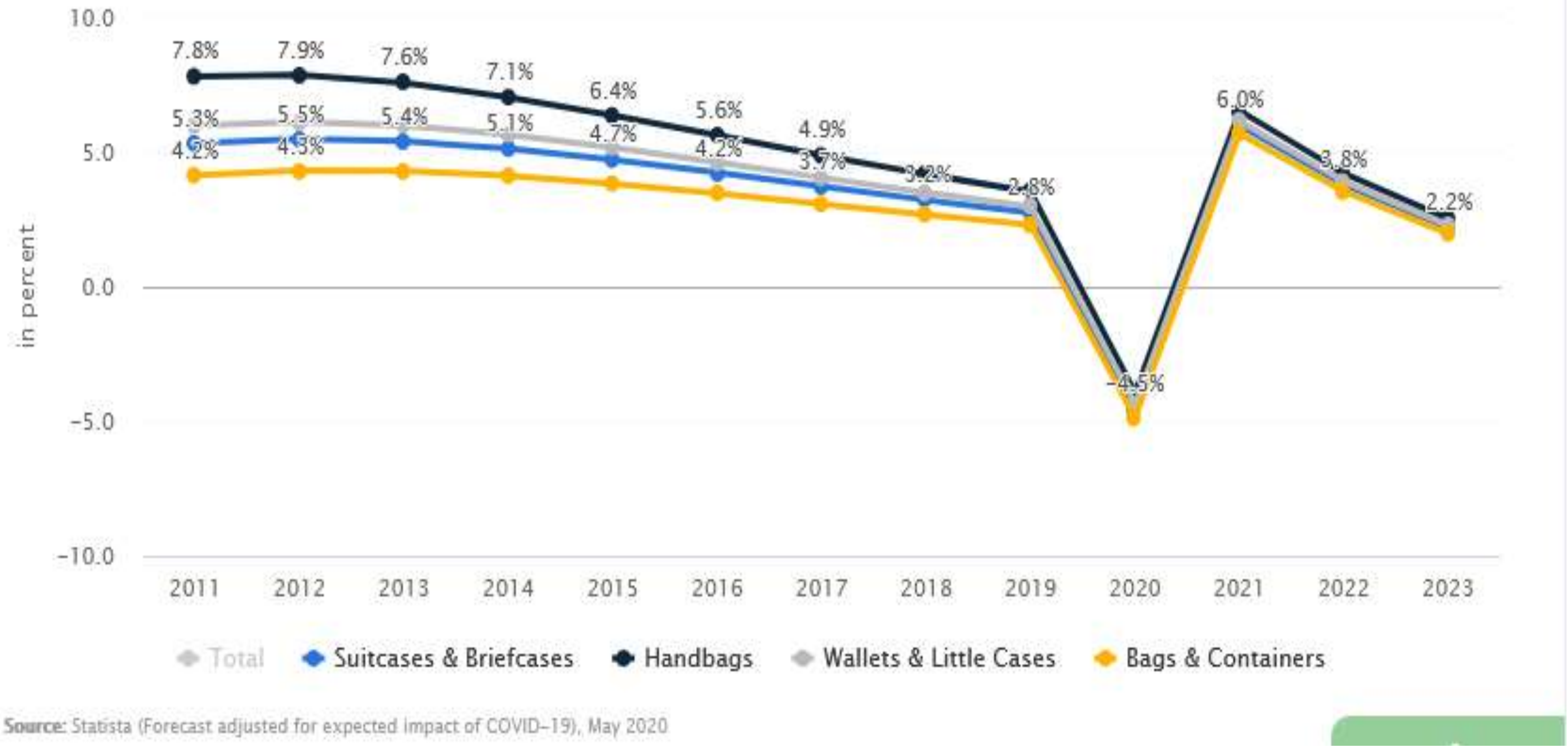
- COVID has severely impacted the travel and tourism sector which indirectly impacts the luggage industry posing a threat for VIP Industries.
- Since the Company products falls under the non-essential categories, the demand for its products will remain low and will tend to witness a recovery in demand once the situations gets normalize.
- Gaining market share from unorganized sector will be difficult because there is going to be an overall price pressure as India goes into a recession.
- Amazon entering the business with semi-branded partners.

INDUSTRY ANALYSIS AND MACROECONOMIC TRENDS

- Revenue in the Luggage & Bags segment amounts to US$16,748m in 2020. The market is expected to grow annually by 4.0% (CAGR 2020-2023). *(Source: Statista)*
- The growth in India's luggage industry is driven by marriages and travelling – both these are seasonal in nature. Q1 (summer vacations and marriage season) and Q3 (festive season) are seasonally good quarters and spending towards promotional expenditure are also much higher in these quarters.
- The Indian luggage industry is pegged at Rs80-85 bn (excluding backpacks and handbags); organized industry has grown at CAGR of 13% over FY14-19.
- Future predictions on the growth rate of the industry seem difficult due to the COVID scenario. The industry is indirectly dependent on the travel and tourism sector which seems to have a bleak future in the coming 1 year.
- Approximately 60% of the industry is unorganized, whereas organized players make the rest 40% of the market.



Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020

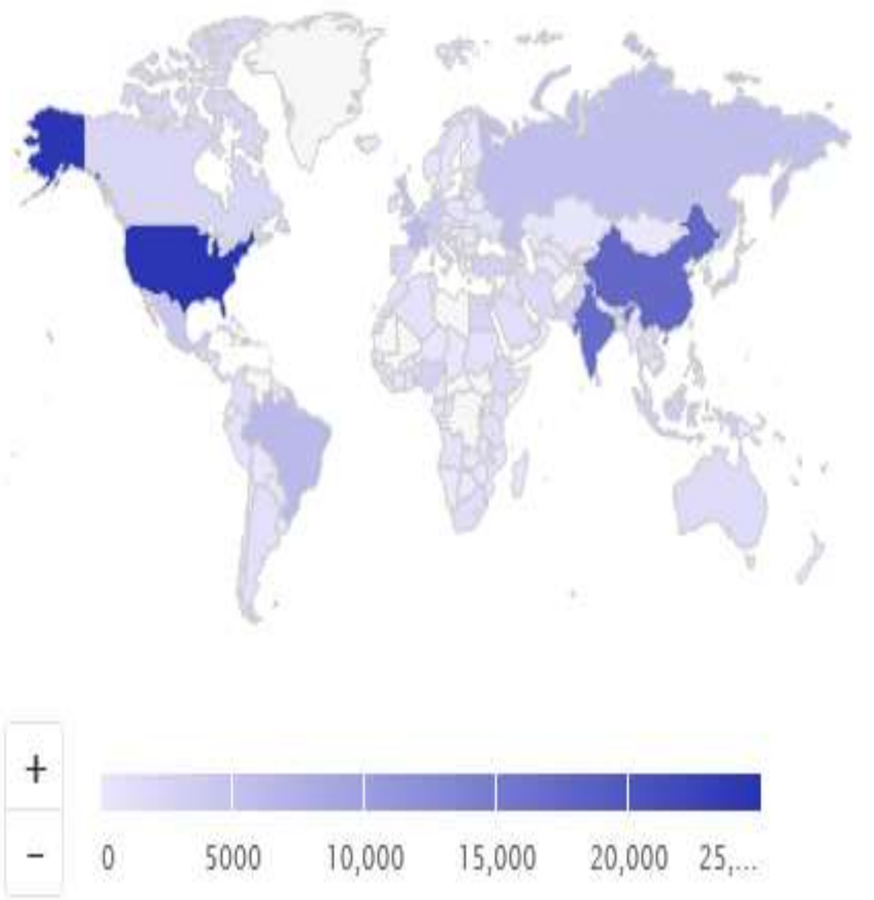


Revenue Growth(%) in Luggage and Bags Industry

The Luggage & Bags segment is expected to show a revenue growth of 6.0% in 2021.: Statista

Global Comparison - Revenue

in million US$



Top 5	
1. United States	US$24,508m
2. China	US$17,474m
3. India	**US$16,748m**
4. Brazil	US$6,104m
5. France	US$5,982m

Reading Support

With a market volume of US$24,508m in 2020, most revenue is generated in the United States.

PNG

Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020 © Natural Eartl

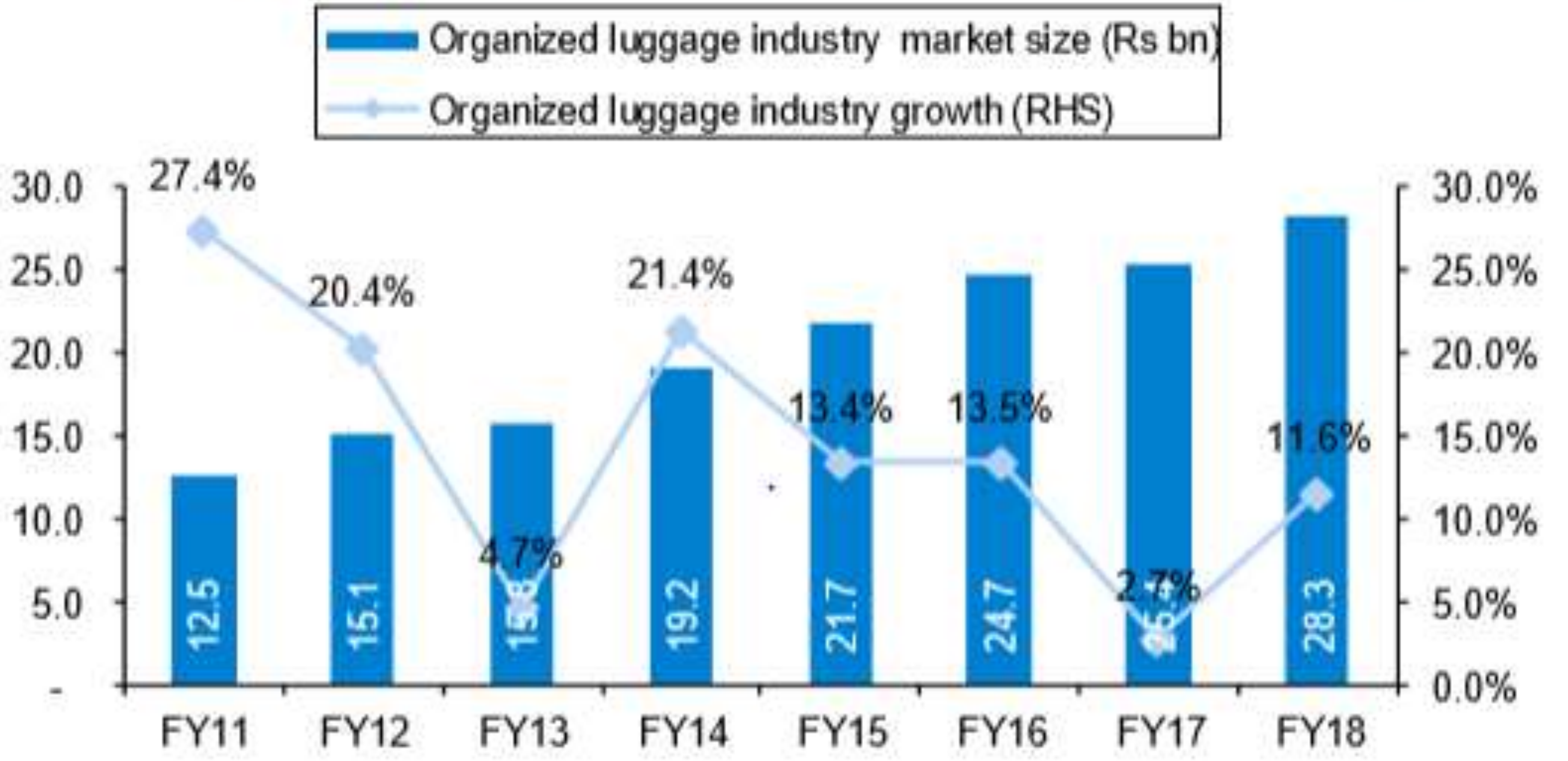
Inf

OLIGOPOLISTIC INDUSTRY

- The Indian luggage industry with a market size of Rs75-80bn (wholesale level) is dominated by unorganized players (60-65% value share & 80% volume share). The market size for back packs (growing by 30% annually) and hand bags is Rs>30bn and Rs70bn respectively.
- The organized luggage sector (VIP, Samsonite & Safari used as a proxy for the sector) has grown at a CAGR of 12.4% over 5 years (FY13-18). While Safari has grown at a CAGR of 35%, VIP and Samsonite grew at 11% and 9% respectively indicating that Safari has gained market share from unorganized players since it has mass offerings.
- Unorganized players dominate the luggage industry in India. Dominance of unorganized players in back packs market is in line with luggage (<67% share). However, the hand bags market is even more fragmented with unorganized players having a higher share of ~90-92%.

Source: Prabhudas Liladher Report

Exhibit 9: Organized luggage industry has doubled over the last 5 years

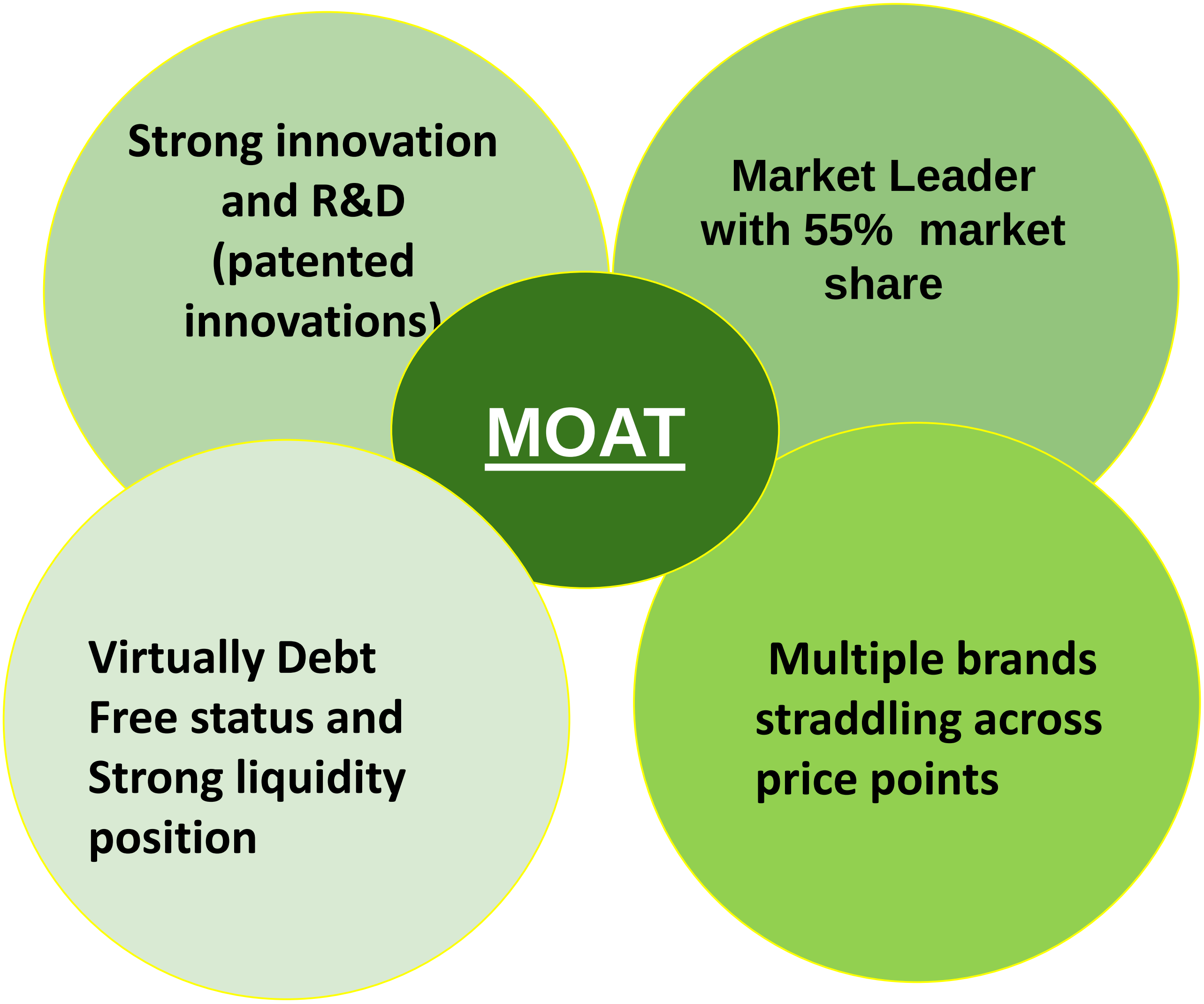


Source: Company, PL

Exhibit 10: Organized players have lowest penetration in the hand bags market

Category	Industry size	Share of organized
Luggage	Rs75-80bn	~33%
Backpacks	>Rs30bn	<33%
Hand bags	Rs70bn	~8-10%

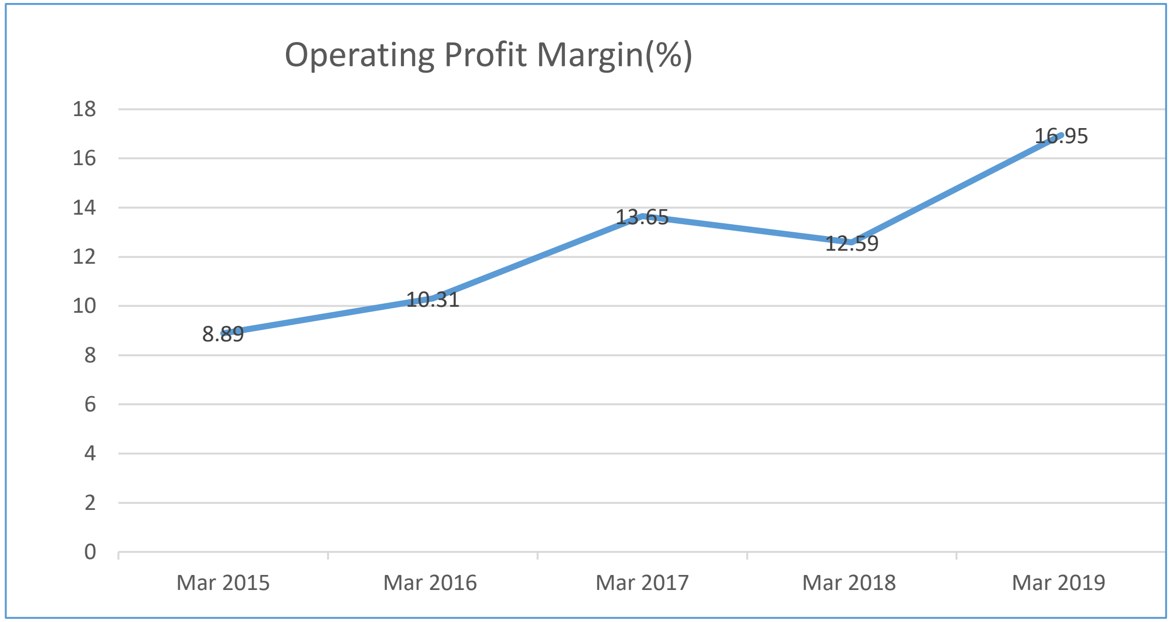
Source: Company, PL, Media articles

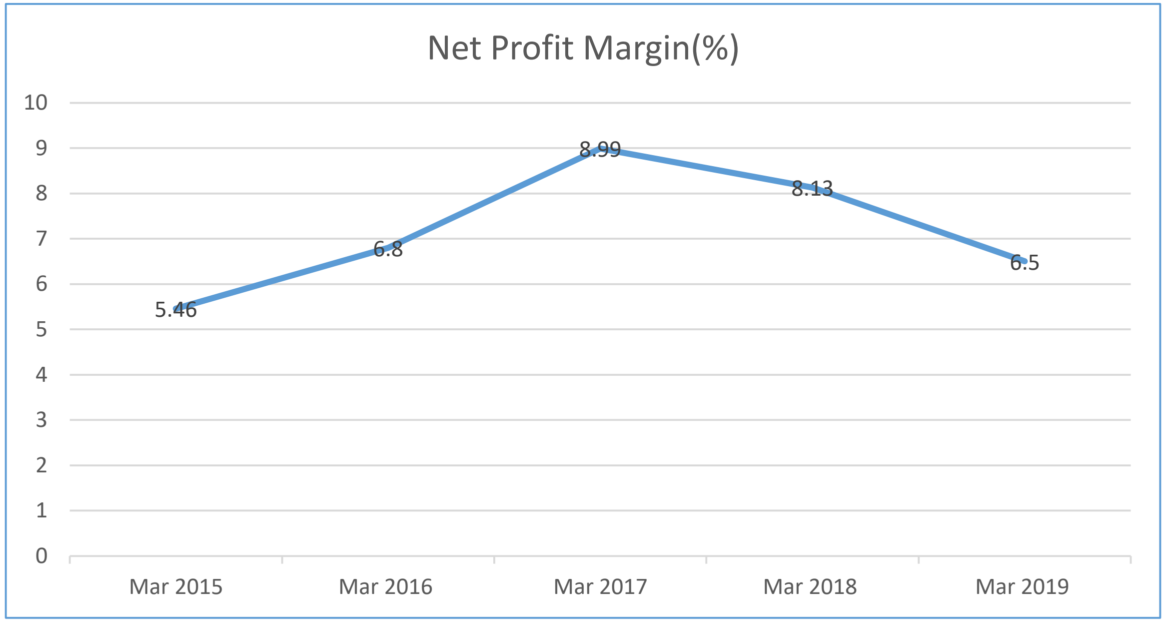


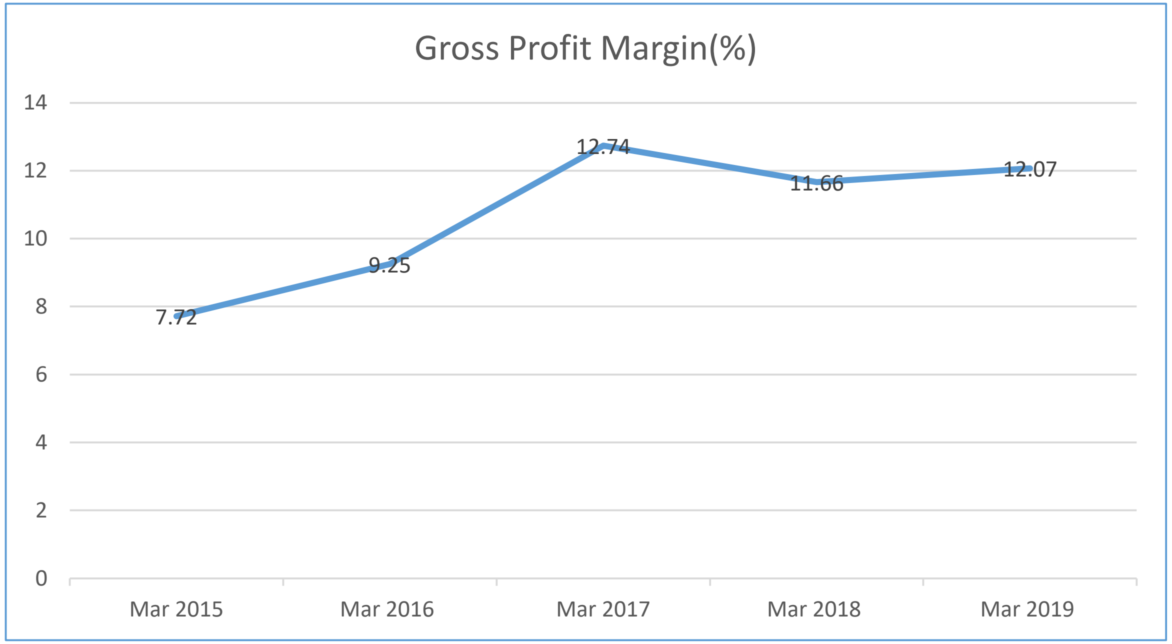
"In business, I look for economic castles protected by unbreachable moats."

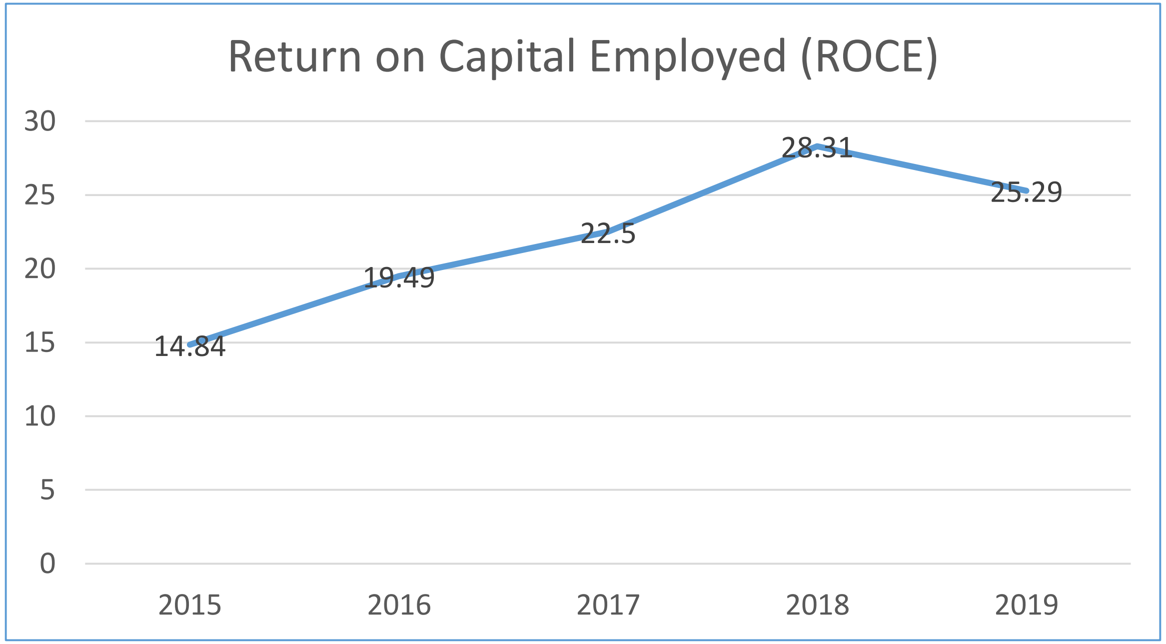
–Warren Buffet

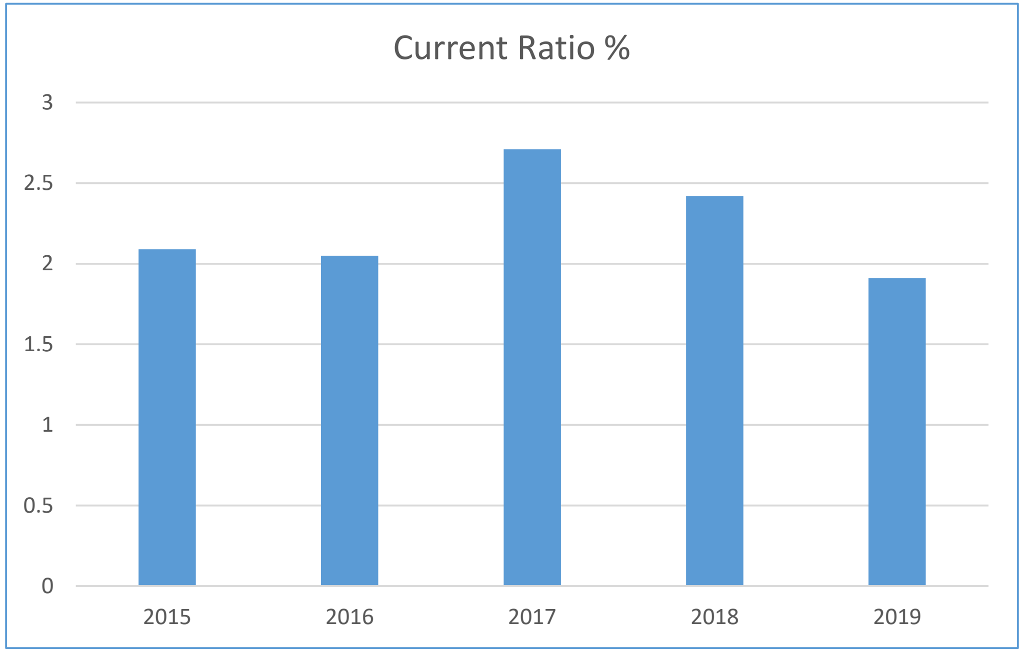
RATIO ANALYSIS


Operating Profit Margin(%)
18
16
14
12
10
8
6
4
2
0
8.89
10.31
13.65
12.59
16.95
Mar 2015
Mar 2016
Mar 2017
Mar 2018
Mar 2019

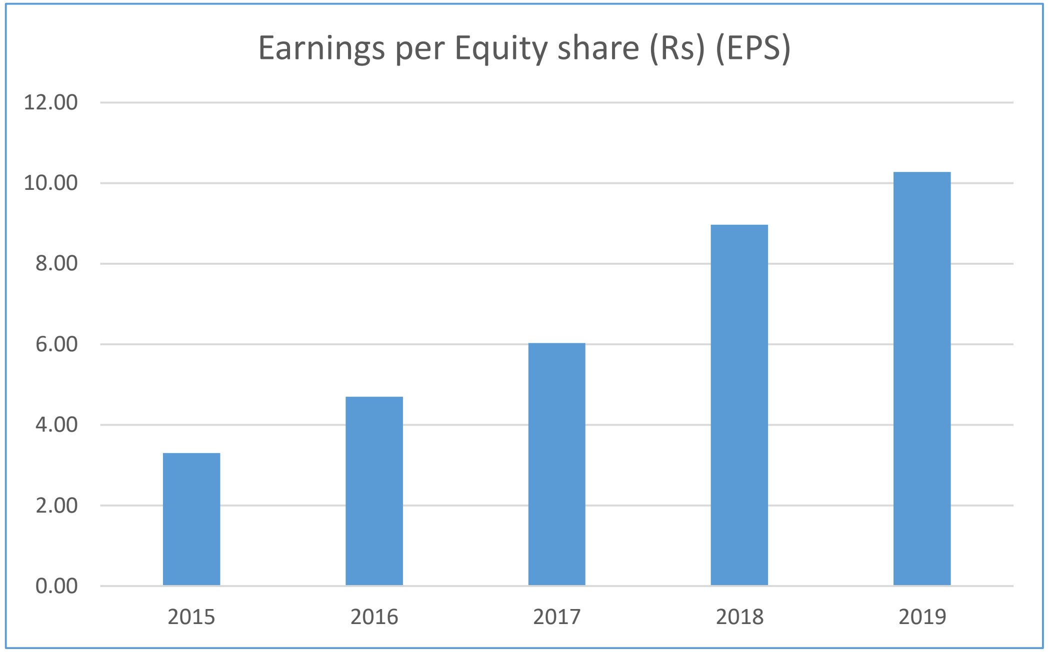

Net Profit Margin(%)
10
9
8
7
6
5
4
3
2
1
0
5.46
6.8
8.99
8.13
6.5
Mar 2015
Mar 2016
Mar 2017
Mar 2018
Mar 2019


Gross Profit Margin(%)
14
12
10
8
6
4
2
0
7.72
9.25
12.74
11.66
12.07
Mar 2015
Mar 2016
Mar 2017
Mar 2018
Mar 2019

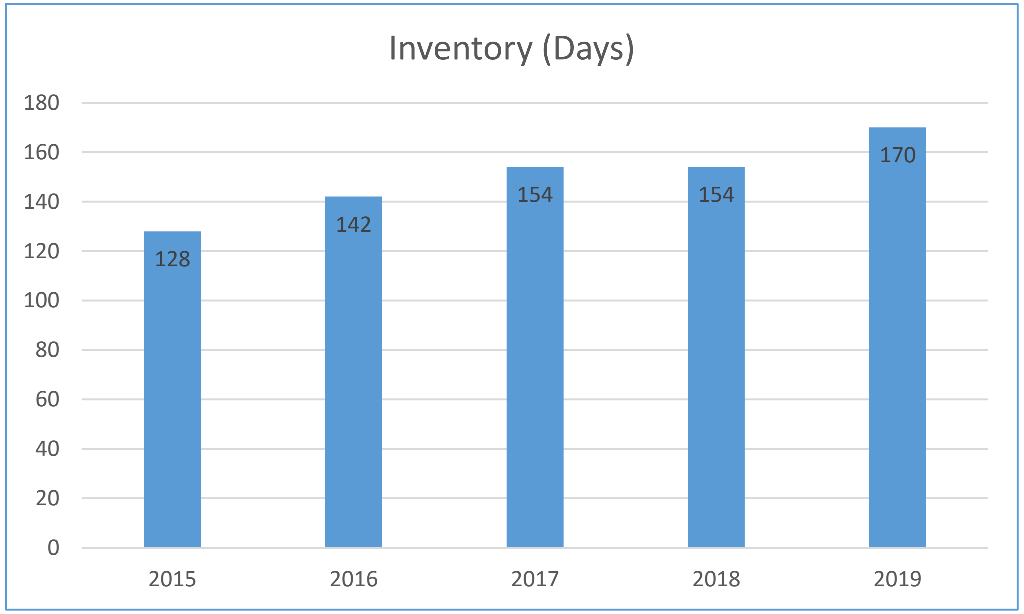

Return on Capital Employed (ROCE)
30
25
20
15
10
5
0
14.84
19.49
22.5
28.31
25.29
2015
2016
2017
2018
2019



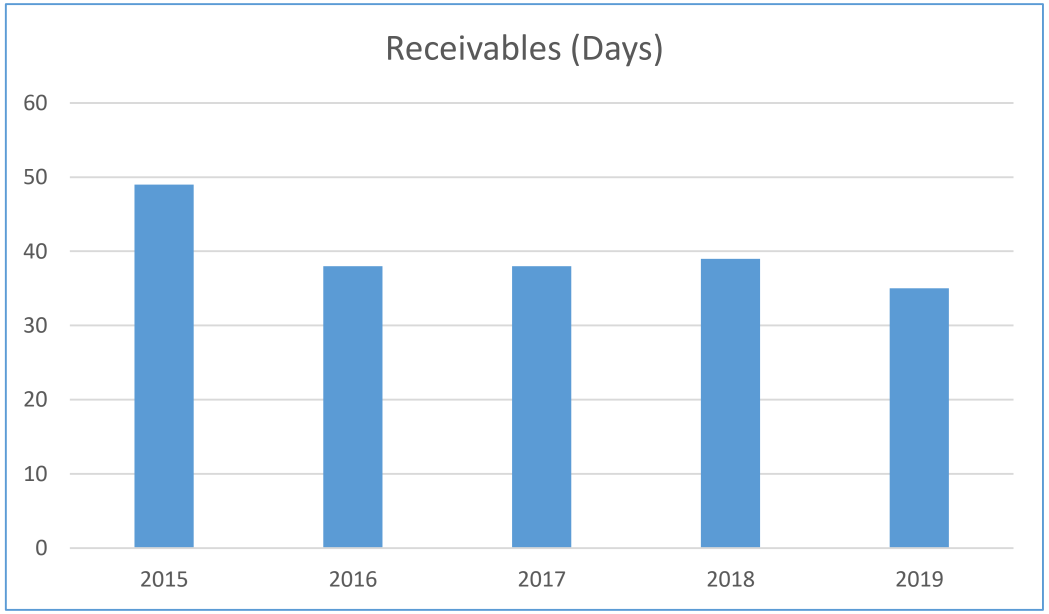
Current Ratio %
3
2.5
2
1.5
1
0.5
0
2015
2016
2017
2018
2019



Earnings per Equity share (Rs) (EPS)
12.00
10.00
8.00
6.00
4.00
2.00
0.00
2015
2016
2017
2018
2019



Inventory (Days)
180
160
140
120
100
80
60
40
20
0
128
142
154
154
170
2015
2016
2017
2018
2019



Receivables (Days)
60
50
40
30
20
10
0
2015
2016
2017
2018
2019

	IND AS		IGAAP		
	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015
KEY RATIOS / PERCENTAGES					
EBIDTA/Revenue from operations%	**13.06**	14.31	10.91	8.95	7.52
Profit before Tax and Exceptional Items /Revenue from operations %	**12.04**	13.38	9.79	7.71	5.75
Profit after Tax/Net Worth (RONW) %	**24.99**	25.92	20.89	19.59	15.23
Return on Capital Employed (ROCE) %	**25.29**	28.31	22.50	19.49	14.84
Earnings per Equity share (Rs) (EPS)	**10.28**	8.97	6.03	4.70	3.30
Book Value per share (₹)	**41.14**	34.61	28.86	24.01	21.64
Revenue from operations/ Fixed assets (Net)	**14.57**	17.65	20.81	18.24	14.69
Current Ratio %	**1.91**	2.42	2.71	2.05	2.09
Receivables (Days)	**49**	38	38	39	35
Inventory (Days)	**170**	154	154	142	128
Dividend including Proposed dividend and dividend distribution tax as % of PAT	**37***	40*	48*	51	55
Dividend including Proposed dividend %	**160***	150*	120*	100	75

Source: Annual Report

V I P INDUSTRIES LTD. (VIPIND) - FINANCIAL RATIOS

RATIOS	2019	2018	2017
DEBT-EQUITY RATIO	0.08	0.00	0.02
CURRENT RATIO	1.92	2.13	2.14
ASSET TURNOVER RATIO	17.66	19.63	8.18
INVENTORY TURNOVER RATIO	4.53	4.91	4.74
DEBTORS TURNOVER RATIO	7.51	9.52	9.68
INTEREST COVERAGE RATIO	53.71	75.79	45.34
OPERATING MARGIN (%)	11.94	13.61	9.97
NET PROFIT MARGIN (%)	7.22	8.37	5.85
RETURN ON CAPITAL EMPLOYED (%)	35.44	40.84	31.06
RETURN ON NET WORTH (%)	25.29	27.25	20.80

Source: Business Standard

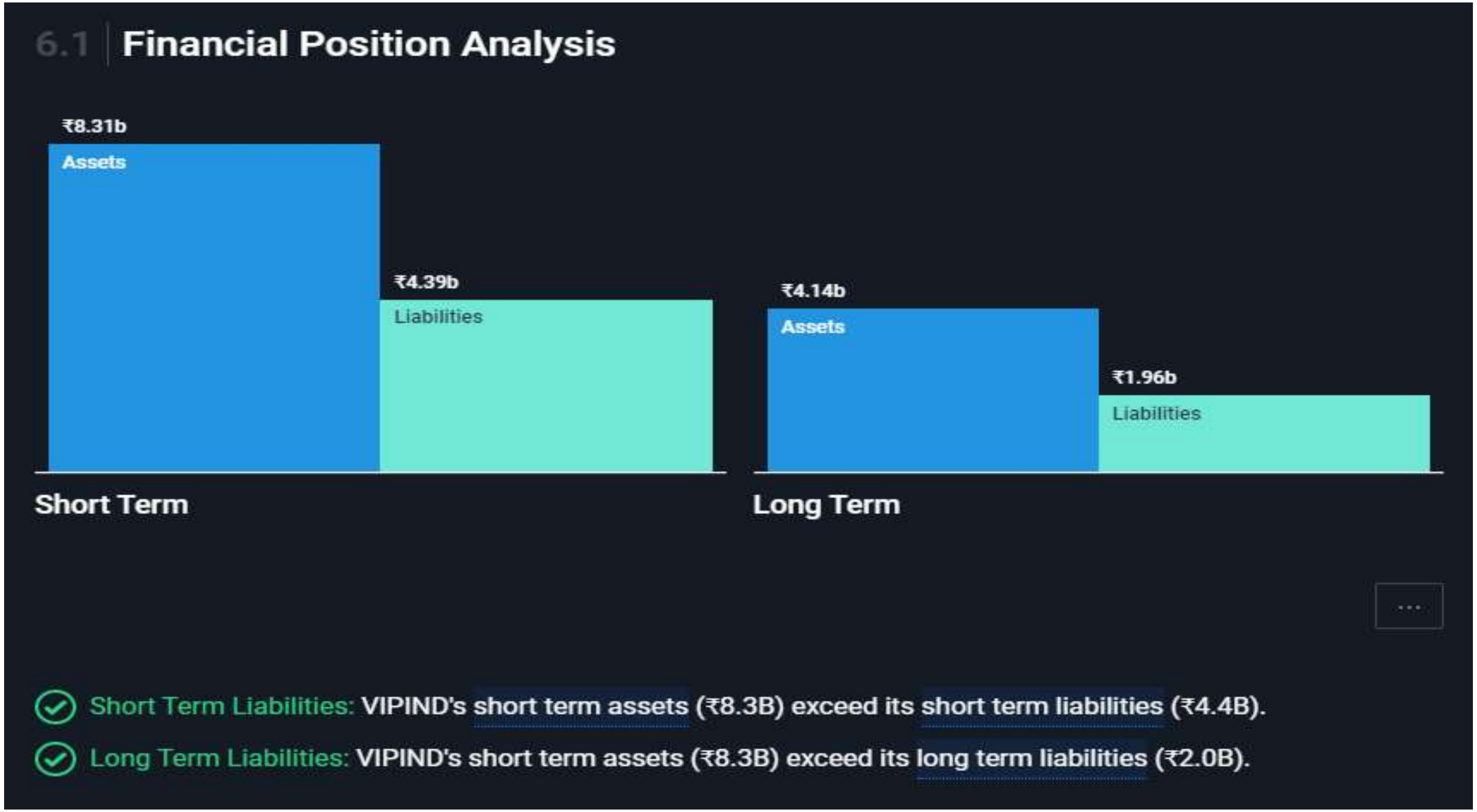
Exhibit 4: Key Ratios

(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	10.3	7.9	1.8	7.3
Cash EPS	11.5	13.8	6.7	12.9
BV	41.1	43.2	44.9	50.1
DPS	3.8	5.2	0.0	2.2
Cash Per Share	1.0	0.8	3.5	8.0
Operating Ratios (%)				
EBITDA margins	12.6	17.0	11.6	15.9
PBT margins	12.0	8.6	3.3	9.5
Net Profit margins	8.1	6.5	2.5	7.1
Inventory days	107.9	95.9	165.0	110.0
Debtor days	61.1	56.8	100.0	68.0
Creditor days	65.1	62.0	70.0	56.0
Return Ratios (%)				
RoE	25.0	18.3	3.9	14.7
RoCE	32.4	34.2	7.6	21.5
Valuation Ratios (x)				
P/E	20.0	26.1	116.8	28.1
EV / EBITDA	13.3	9.9	25.2	12.3
EV / Sales	1.7	1.7	2.9	2.0
Market Cap / Revenues	1.6	1.7	2.9	2.0
Price to Book Value	5.0	4.8	4.6	4.1
Solvency Ratios				
Debt / Equity	0.1	0.1	0.2	0.1
Debt/EBITDA	0.4	0.1	0.9	0.2
Current Ratio	2.3	2.2	3.0	2.6
Quick Ratio	1.0	1.0	1.3	1.2

Source: Company, ICICI Direct Research

QUANTITATIVE ANALYSIS

BALANCE SHEET



CONSOLIDATED FINANCIALS - 5 YEAR HIGHLIGHTS

(₹ in Crores)

	Description	IND AS		IGAAP		
		March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015
A.	**STATEMENT OF PROFIT & LOSS**					
	Revenue from operations	**1,784.66**	1,416.34	1,282.57	1,234.25	1,063.53
	Earning Before Interest, Depreciation & Tax (EBIDTA)	**233.04**	202.68	139.89	110.47	79.96
	Depreciation and amortisation expense	**16.61**	12.85	13.61	14.18	17.52
	Interest and Finance Cost	**1.49**	0.30	0.68	1.18	1.28
	Profit before tax and Exceptional/Extraordinary Items	**214.94**	189.53	125.60	95.11	61.16
	Exceptional/Extraordinary Items- Expense/(Income)	**-**	-	-	-	(4.32)
	Tax Expense	**69.67**	62.78	40.39	28.65	18.90
	Profit After Tax (PAT)	**145.27**	126.75	85.21	66.46	46.58
	Dividend (Including Proposed dividend and dividend distribution tax)	**54.30***	50.80*	40.45*	34.02	25.49
B.	**BALANCE SHEET**					
	Assets Employed:					
	Fixed Assets (Net)	**122.49**	80.24	61.63	67.65	72.38
	Investments	**0.77**	71.87	68.27	0.01	0.01
	Net assets (Current and Non Current)	**539.34**	331.58	272.75	281.82	261.29
	Deferred Tax Assets/(Liabilities) (Net)	**4.93**	5.40	5.25	4.11	3.10
		667.53	489.09	407.90	353.59	336.78
	Financed by:					
	Net Worth	**581.38**	489.09	407.90	339.31	305.75
	Loan Funds	**86.15**	-	-	14.28	31.03
		667.53	489.09	407.90	353.59	336.78

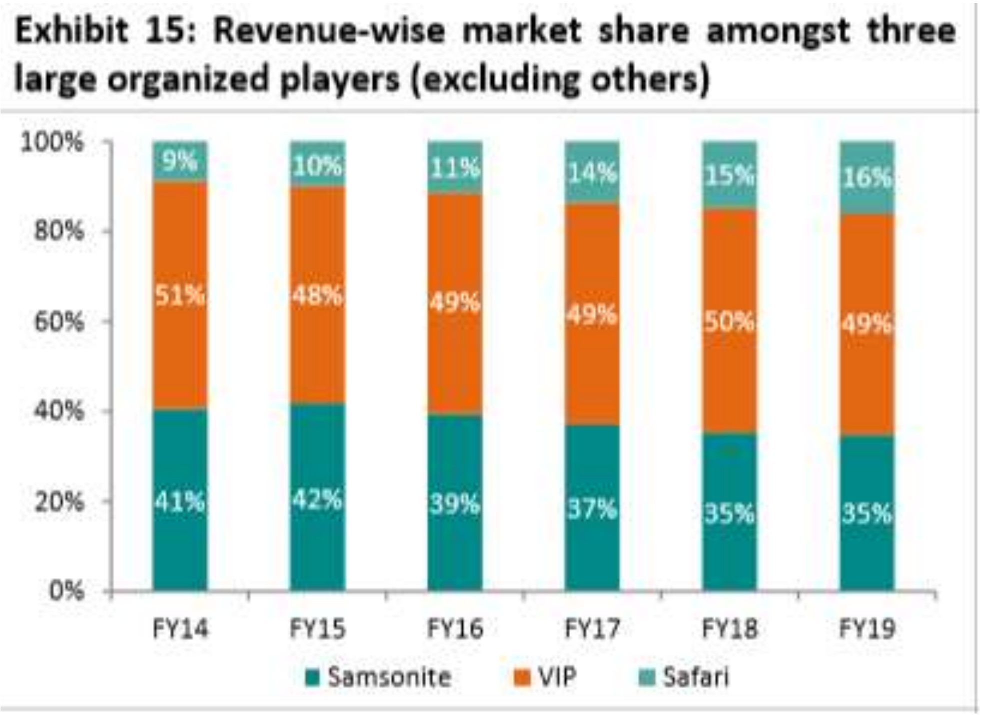
CASH FLOW ANALYSIS

Cash Flows Consolidated Figures in Rs. Crores /

	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019
Cash from Operating Activity +	25	33	84	13	84	74	50	14	53	126	85	-56
Cash from Investing Activity +	-7	-6	-10	-18	-20	-15	-2	-3	-8	-73	-29	16
Cash from Financing Activity +	-17	-23	-67	-4	-56	-63	-49	-14	-45	-51	-44	31
Net Cash Flow	**1**	**3**	**7**	**-10**	**8**	**-4**	**-1**	**-3**	**0**	**2**	**13**	**-9**

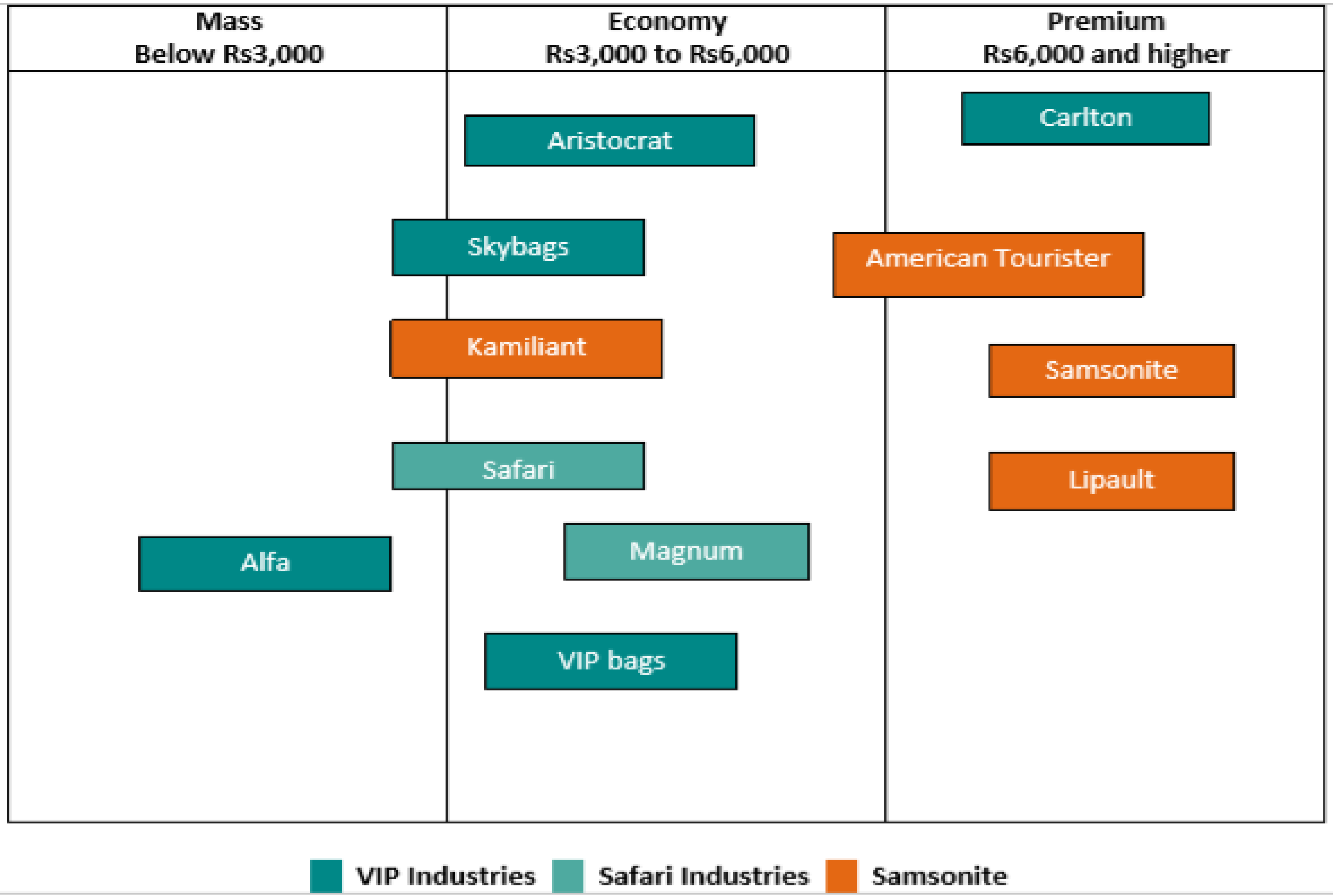
COMPETITOR'S ANALYSIS

- The top three players, namely VIP, Samsonite and Safari formed 90-95% of organized market over FY14-19.
- So the major competitors of VIP Industries are Samsonite and Safari and it faces some minor competition from companies like Wildcraft, Baggit and Amazon Basics.



Source: IDBI Capital Report

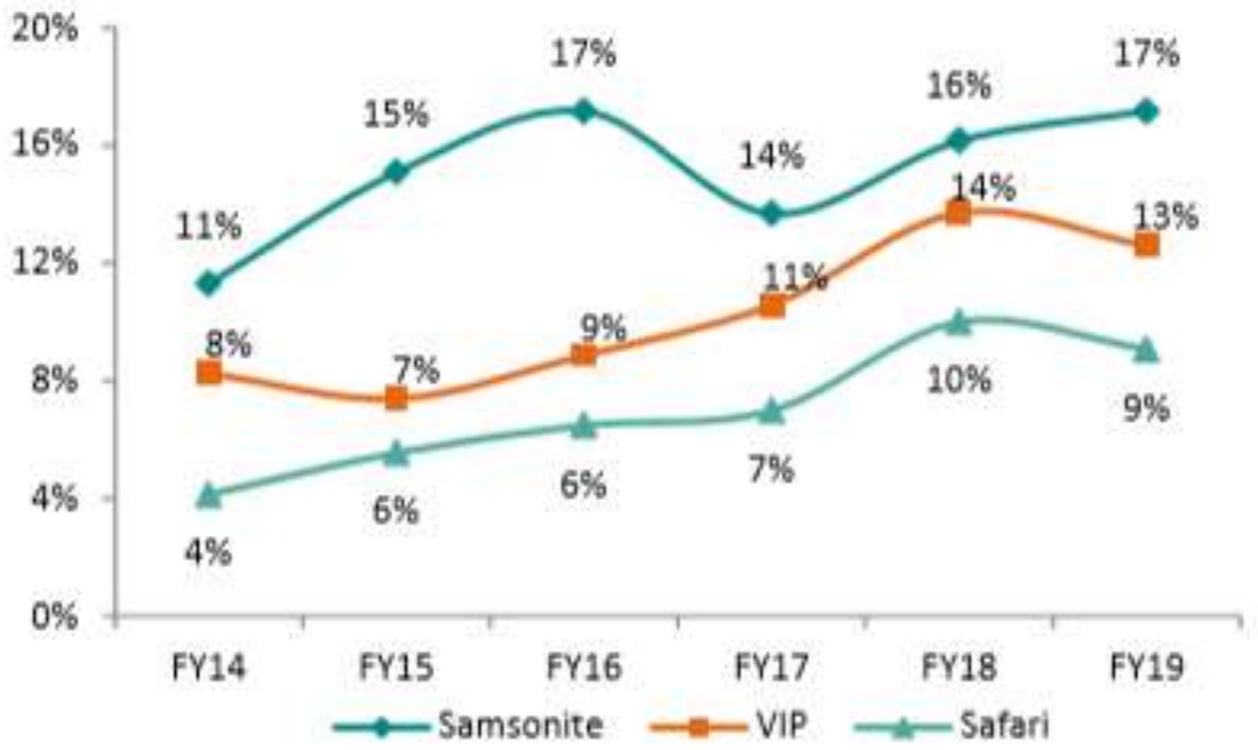
Exhibit 17: VIP has presence across price points (excluding backpacks and handbags)



Source: Channel checks, Companies, IDBI Capital Research

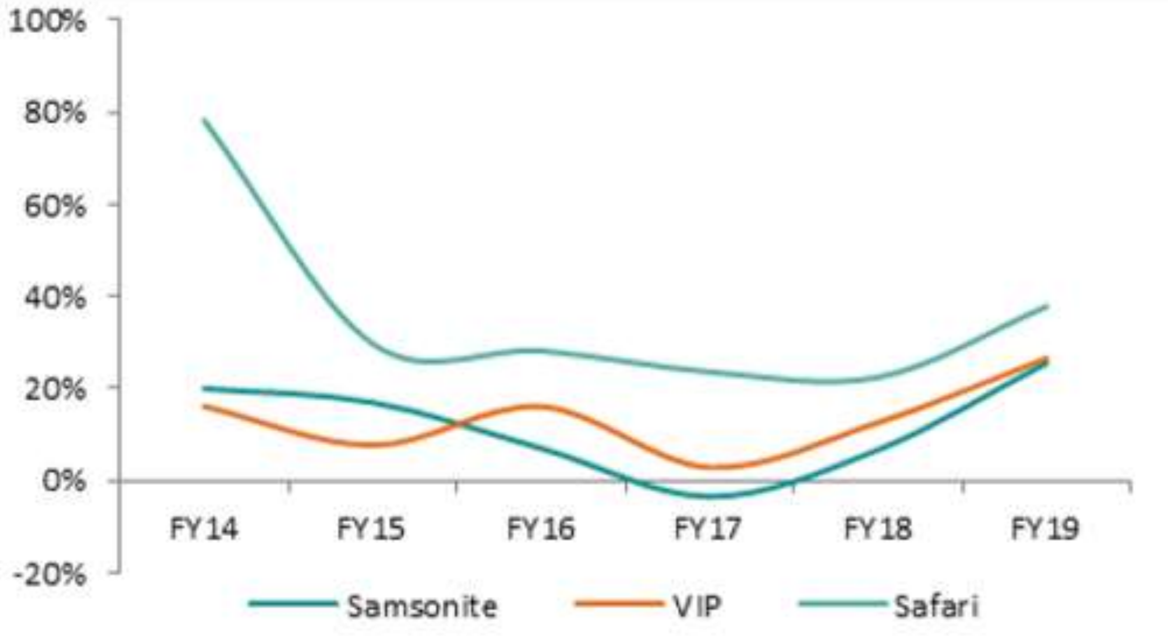
- VIP has a well-diversified product portfolio compared to its peers, Samsonite and Safari.
- Samsonite has a large presence in premium categories while Safari mainly caters to economy segment.
- VIP has presence across all three categories- mass, economy and premium.

Exhibit 16: EBITDA margin of VIP, Safari and Samsonite



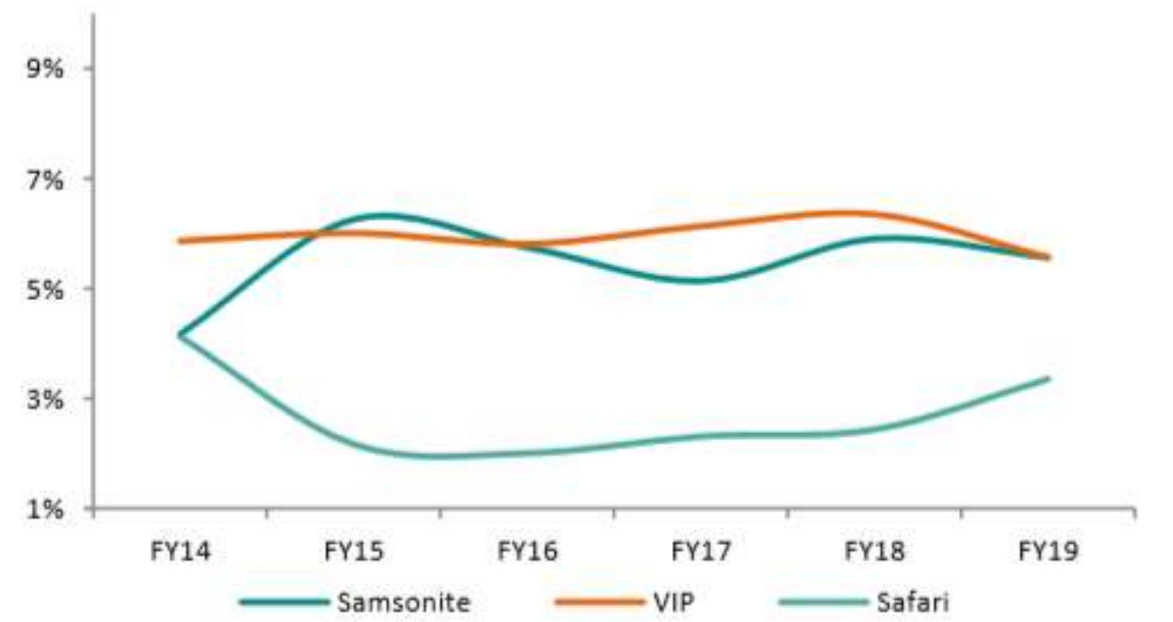
Source: Companies, IDBI Research

Exhibit 28: Sales growth fastest for Safari



Source: Companies, IDBI Capital Research

Exhibit 29: Promotional expenditure as a percentage of sales



Source: Companies, IDBI Capital Research

Although Safari has exhibited strong top line growth over the last 5-7 years, its debt to equity and return ratios are worst amongst all three organized players.

VIP and Samsonite have higher spends on promotion and branding as a percentage of sales while Safari's spends towards promotions are lower.

COMPETITOR’S ANALYSIS

Product quality	Samsonite’s product quality was found better than others although the pricing was high, compared to others. However, there were some Chinese/ Indian companies which offered warranties for 1-3 years which traditional retailers were keen to push.
Canteen Stores Department (CSD) sales	Our interaction with executives at CSD indicates that the stringent regulations in the past one year have led to fall in overall sales for all the players. Receivable days are high in CSD sales; nevertheless, they remained secured.
After sales service	Samsonite and VIP had strong after sales service in India; Samsonite offered after sales service internationally also. VIP had third party tie-ups for overseas after sales service. Unbranded players after-sales service was weakest.
Hard luggage	In Hard luggage, Samsonite was the only player to offer light weight luggage until recently. VIP has recently launched light weight luggage (1.5 kg for standard 26 inch). Hard luggage is growing at a faster rate; competition from unbranded players is low.
Pricing	In the mass category, the typical premium of branded players is 15-30%. However, in the economy and premium categories, the price differential was found to be between 50-100%.
Trade margins	Trade margins vary across products. However, margins in unbranded luggage are higher.
Competiveness	In the price level below Rs2,500 Safari luggage is competitive vis-à-vis unbranded players. For backpacks and trolleys above Rs2,000, the price differential between branded and unbranded was found to be 70-100%.
Imported vs. domestic unbranded luggage	Vendors preferred to sell domestic products due to their reliability on after-sales service.
Branded vs. unbranded	Our channel checks in traditional retail outlets in Mumbai metros indicate that out of every ten customers, five are likely to buy a branded bag.

Source: Channel checks, IDBI Capital Research

VALUATIONS

WACC Calculation

i. Risk free rate	3.6%	
Inorder to estimate rf I will use ten yr bond yield rates in India and Currency Default Spread		
Bond yield = 5.79 (rbi data)		
Hence, rf = 5.79%-2.15%		
CDS = Typical default spread for Baa2 companies is 2.15%		
ii. Beta		
India Beta: 0.63 (304 firms)	**0.75**	
Global Beta: 0.80 (1161 firms)		
Emerging Market Beta: 0.75 (907 firms)		
iii. ERP		
ERP = Country Risk Premium(3.48) + Mature Market premium (6.01)	**9.49%**	
Cost of Equity	**10.76%**	
Cost of Debt	**7.60%**	
average debt =	**43.075**	
Pre tax cost of debt =	**10.15%**	
Tax rate=	**25.168%**	
After tax cost of debt =	**7.60%**	
Average Debt=	**43.075**	**(Rs Crores)**
Average Equity=	**535.235**	**(Rs Crores)**
WACC=	**10.52%**	

Consolidated Statement of Profit and Loss											Assumptions
	Year ended		(In crores)								
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21E	Mar-22E	Mar-23E	Mar-24E	Mar-25E	Mar-26E	
Revenue from operations	1282.57	1,416.34	1,784.66	1718.32	1030.992	1683.954	2273.3374	2728.0048	3137.206	3513.67022	*According to Q4 earnings call mgt expects revenue for FY 21 to be around 50-60% of revenue in FY 20.For the years FY 22 and after we forecast revenue to pick up to FY 20 levels with travel being back to normal. Further, it might also gain some market share from competitors like Samsonite and unorganised players that might have gone out of business in FY 21.*
Sales growth		0.10	0.26	-0.04	-0.40	0.63	0.35	0.20	0.15	0.12	
Other income	7.55	9.31	8.32	12.50	7.5	7.5	7.5	7.5	7.5	7.5	
Total income	1290.12	1425.65	1792.98	1730.82	1038.49	1691.45	2280.84	2735.50	3144.71	3521.17	
Expenses:											
Cost of materials consumed	155.41	179.31	306.88	357.24							
Purchases of stock-in-trade	515.38	554.92	767.70	382.01							
Changes in inventories of finis	5.23	(22.55)	(170.21)	66.67							
COGS	676.02	711.68	904.37	805.92	464	758	955	1228	1349	1511	
COGS/Sales	0.52	0.50	0.50	0.47	0.45	0.45	0.42	0.45	0.43	0.43	*Margins are expected to improve on account of prodn base shifting from China to Bangladesh.*
Gross Margin	47%	50%	49%	53%	55%	55%	58%	55%	57%	57%	
Excise duty	31.03	6.75									
Employee benefits expense	139.67	159.39	201.07	210.49	126.29	202.07	272.80	327.36	376.46	421.64	
Employee exps/ Sales	0.11	0.11	0.11	0.12	0.12	0.12	0.12	0.12	0.12	0.12	
Other expenses	303.51	345.15	454.50	410.63	260.63	336.79	477.40	545.60	627.44	702.73	
Other exps/ Sales	0.24	0.24	0.25	0.24	0.23	0.2	0.21	0.2	0.2	0.2	
EBITDA	163.37	200.12	224.72	291.28	187.62	394.81	575.83	634.94	791.80	885.92	*For FY 21, Mgt has plans to reduce costs by 30% of FY 20, excluding a 100 cr savings in adtv exps. Other exps as a % of sales is expected to reduce over the years due to prodn base change which helps reduce COGS and overheads, freight, octroi costs, wages, etc. Hence, increasing EBITDA margins.*
EBITDA/Sales	0.13	0.14	0.13	0.17	0.18	0.23	0.23	0.23	0.25	0.25	

Depreciation and amortisation	13.61	12.85	16.61	83.87	70.00	82.00	83.00	84.00	85.00	90.00	
Total Operating Expenses (	**487.82**	**524.14**	**672.18**	**725.99**	**477.92**	**641.87**	**854.20**	**977.96**	**1109.91**	**1235.37**	*We expect it to be slightly higher in FY 21 as a % of sales, and to subsequently decline once production and demand resumes to full capacity.*
Total operating exps/ Sales	*0.38*	*0.37*	*0.38*	*0.42*	*0.46*	*0.38*	*0.38*	*0.36*	*0.35*	*0.32*	
EBIT	**118.73**	**180.52**	**208.11**	**186.41**	**96.62**	**291.81**	**471.83**	**529.94**	**685.80**	**774.92**	
Finance costs											
Lease expenses (IND AS 115 reclassified from April 2019)				21.00	21.00	21.00	21.00	21.00	21.00	21.00	*Lease expenses have been treated as an operating expense and deducted from EBITDA.*
Interest Expenses	0.68	0.30	1.49	2.00	4.00	4.00	4.00	4.00	9.00	9.00	*Borrowings are expected to be higher in the upcoming years.*
Total expenses	**1164.52**	**1236.12**	**1578.04**	**1533.91**	**945.87**	**1403.64**	**1813.00**	**2209.56**	**2467.90**	**2755.25**	
Total exps/ Sales	*0.91*	*0.87*	*0.88*	*0.89*	*0.91*	*0.83*	*0.79*	*0.81*	*0.78*	*0.78*	*Expected to significantly decline over the years with improvement in gross margins and lowering of opex.*
Profit before tax and excep	**125.60**	**189.53**	**214.94**	**196.91**	92.62	287.81	467.83	525.94	676.80	765.92	
Exceptional Items		0.00	0.00	-48.50	0	0	0	0	0	0	
Profit before tax	**125.60**	**189.53**	**214.94**	**148.41**	**92.62**	**287.81**	**467.83**	**525.94**	**676.80**	**765.92**	
Tax expense											
Current tax	41.19	62.04	69.64	38.41							
Deferred tax	-0.93	0.31	0.03	-1.73							
Short provision for tax relating	0.13	0.43									
Total tax expense	**40.39**	**62.78**	**69.67**	**36.68**	**23.16**	**71.95**	**116.96**	**131.49**	**169.20**	**191.48**	
Tax expense/Sales	*0.32*	*0.33*	*0.32*	*0.25*	*0.25*	*0.25*	*0.25*	*0.25*	*0.25*	*0.25*	
Net Operating Profit(NOP)	**78.34**	**117.74**	**138.44**	**149.73**	**73.47**	**219.86**	**354.88**	**398.46**	**516.60**	**583.44**	*Assuming efficient cost cutting measures, we expect profits to decline at 40% in FY 21 considering that the economy has reopened to a large extent and VIP outlets in green and orange zones have become mostly operational. Once, sales picks to normalcy in FY 22, we expect profits to jump significantly as a result of cost optimisation.*
Profit for the year	**85.21**	**126.75**	**145.27**	**111.73**	**69.47**	**215.86**	**350.88**	**394.46**	**507.60**	**574.44**	
Profit(%) Y-o-Y		**0.49**	**0.15**	**-0.23**	**-0.38**	**2.11**	**0.63**	**0.12**	**0.29**	**0.13**	
PAT to sales	**0.07**	**0.09**	**0.08**	**0.07**	**0.067**	**0.128**	**0.154**	**0.145**	**0.162**	**0.163**	
Paid up equity share capital (	28.26	28.26	28.26	28.26	28.26	28.26	28.26	28.26	28.26	28.26	
Weighted average number of	14.13	14.13	14.13	14.13	14.13	14.13	14.13	14.13	14.13	14.13	
Reserves excluding revaluatio	380	461	553.12	581.55							
Earnings per equity share											
Basic earnings per share (i	**6.03**	**8.97**	**10.28**	**7.91**	**4.92**	**15.28**	**24.83**	**27.92**	**35.92**	**40.65**	
Diluted earnings per share	**6.03**	**8.97**	**10.28**	**7.91**	**4.92**	**15.28**	**24.83**	**27.92**	**35.92**	**40.65**	

Consolidated Balance Sheet											Assumptions
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21E	Mar-22E	Mar-23E	Mar-24E	Mar-25E	Mar-26E	
Assets											
Property, plant and equipment	59.97	74.97	111.64	132.54	140.00	145.00	155.00	165.00	195.20	175.68	*PPE has been forecasted on the basis on historical Sales/PPE trends.*
Sales	*1282.6*	*1416.3*	*1784.7*	*1718.3*	*1031.0*	*1684.0*	*2273.3*	*2728.0*	*3137.2*	*3513.7*	
Sales/PPE	*21.39*	*18.89*	*15.99*	*12.96*	*7.36*	*11.61*	*14.67*	*16.53*	*18.00*	*20*	
Change in PPE	*-5.03*	*15.00*	*36.67*	*20.90*	*7.46*	*5.00*	*10.00*	*10.00*	*30.20*	*-19.52*	
Right to use				225.22							
Capital work-in-progress		2.66	5.69	2.7							
Investment properties		0.99	2.18	2.3							
Other intangible assets		1.08	2.87	3.93							
Intangible assets under development		0.54	0.11	0.06							
Equity investments in joint ventures											
Financial assets											
Investments		0.50	0.77	0.42							
Loans		15.00	21.38	21.84							
Other financial assets		2.71	0.07	0.04							
Deferred tax assets (net)		5.40	4.93	7.5							
Current tax assets (net)		1.48	5.16	8.78							
Other non-current assets		8.04	8.93	8.65							
Total non-current assets		113.37	163.73	413.98							
Current assets											
Cost of materials consumed	**155.41**	**179.31**	**306.88**	**357.24**							
Purchases of stock-in-trade	515.38	554.92	767.70	382.01							
Changes in inventories of finished goods, w	5.23	(22.55)	(170.21)	66.67							

COGS	**676.02**	**711.68**	**904.37**	**805.92**	**464**	**758**	**955**	**1228**	**1349**	**1511**	
Inventories	**282.63**	**316.52**	**527.35**	**451.36**	**378.8896**	**429.6608**	**515.59291**	**566.5793**	**634.5688**	**634.5688**	*Inventory levels have been calculated based on historical Inventory DOH levels that been consistent 40-50% except in FY 19 on account of an adjustment.*
Inventories/COGS	0.42	0.44	0.58	0.56	0.50	0.45	0.42	0.42	0.42	0.42	
Inventory DOH at COGS	**152.60**	**162.33**	**212.84**	**204.42**	**182.50**	**164.25**	**153.30**	**153.30**	**153.30**	**153.30**	
Financial assets											
Investments		71.37		40.35							
Trade receivables	**120.96**	**176.88**	**298.61**	**267.44**	**175.27**	**286.27**	**341.00**	**409.20**	**376.46**	**421.64**	*Sales is expected to be higher for FY 21-22 as retailers may face a liquidity crunch. This is expected in normalise in the*
Trade Receivables/ Sales	0.09	0.12	0.17	0.16	0.17	0.17	0.15	0.15	0.12	0.12	
Cash and cash equivalents		20.22	10.81	6.85							
Bank balances other than cash and cash equivalents		3.27	3.42	3.91							
Loans		4.13	3.90	8.24							
Other financial assets		0.58	2.95	2.14							
Other current assets		66.31	60.29	50.47							
Total current assets		659.28	907.33	830.76							
Total assets		**772.65**	**1,071.06**	**1244.74**							
Equity and Liabilities											
Equity											
Equity share capital		28.26	28.26	28.26							
Other equity		460.83	553.12	581.85							
Total equity		489.09	581.38	610.11							

Liabilities										
Non-current liabilities										
Financial liabilities				179.88						
Other financial liabilities		2.16	2.43	2.88						
Provisions		9.25	11.87	12.45						
Other non-current liabilities		0.14	0.13	0.1						
Deferred tax lbty (net)				0.76						
Total non-current liabilities		11.55	14.43	196.07						
Current liabilities										
Financial liabilities										
Borrowings			86.15	32.19						
Trade payables										
a) Total outstanding dues of micro and small enterprises										
b) Total outstanding dues other than micro	**145.71**	**212.07**	**318.40**	**292**	**139.18**	**227.33**	**305.54**	**392.83**	**431.68**	**483.48**
	0.22	**0.30**	**0.35**	**0.36**	**0.30**	**0.30**	**0.32**	**0.32**	**0.32**	**0.32**
Lease Liabilities				57.3						
Other financial liabilities		5.59	4.56	4.8						
Provisions		3.77	4.94	10.76						
Current tax liabilities (net)		0.76	0.67	1.17						
Other current liabilities		49.82	60.53	40.34						
Total current liabilities		272.01	475.25	438.56						
Total liabilities		283.56	489.68	634.63						
Total equity and liabilities		**772.65**	**1,071.06**	**1244.74**						

Capex of 60 crores next year- To move production to Bangladesh

Other assumptions-

Interest Expenses

Due to the change in accounting standard to IND AS 116 - Lease is classified as a right to use liability in the balance sheet.
An yearly interest is charged against it, which is added as a part of the financing cost. Effective from April 1st.
As can be seen in the statement financing costs for FY 20 = Rs 23 cr => Sum of interest paid (2.71 crores) and interest payment on lease (20.79 crores).

I will assume the interest expenses will continue to remain at the range of Rs 25-30 crore for next 5 years
as leases are a contractual obligation and interest expenses might increase due to the additional borrowings made in FY 20 Q4.

Depreciation expenses

The company follows a straight line method of depreciation and incurs Capex of around 30-40 every year. I have forecasted it to be ~70-80 crores consistent with ind as 115.
Further it is addumed Opex/Sales will be higher in FY 21 E compared to VIP's historical trend of 40%. It will stabilise by FY23E as production base shifts to Bangladesh lowering Opex.

Other Income:

Based on avg of rental income, dividend income and interest income received in past five years. They are mostly likely to be accrued in the upcoming years as well.

FCF Calculation

Parameters			
	Tax rate		25%
	Terminal growth rate		4.0%
	WACC		10.52%

Table of Assumptions

Ratio/Growth Rate				Projected Ratios/Growth Rates					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Sales growth	10%	26%	-4%	-40%	63%	35%	20%	15%	12%
COGS/Sales	50%	50%	47%	45%	45%	42%	45%	43%	43%
Op Expenses/sales	37%	38%	42%	46%	38%	38%	36%	35%	32%
Sales/PPE, net	18.89	15.99	12.96	7.36	11.61	14.67	16.53	18.00	20.00
AR/Sales	12%	17%	16%	17%	17%	15%	15%	12%	12%
Inv DOH@ COGS	162	213	204	183	164	153	153	153	153
AP @ COGS	30%	35%	36%	30%	30%	32%	32%	32%	32%

Table of Free Cash Flows

	2018	2019	2020	2021	2022	2023	2024	2025	2026
NOP	**117.74**	**138.44**	**149.73**	**73.47**	**219.86**	**354.88**	**398.46**	**516.60**	**583.44**
Change in net PPE	**15**	**37**	**21**	**7**	**5**	**10**	**10**	**30**	**(20)**
Change in NOWC calculation									
Operating current Assets									
Accounts Receivable	176.88	298.61	267.44	175.27	286.27	341.00	409.20	376.46	421.64
+ Inventories	317	527	451	379	430	516	567	635	635
= Operating Current Assets	493	826	719	554	716	857	976	1,011	1,056
Operating current liabilities									
Accounts Payable	212	318	292	139	227	306	393	432	483
= Operating current liabilities	212	318	292	139	227	306	393	432	483
NOWC (current ass - current lia	281	508	427	415	489	551	583	579	573
Change in NOWC		226	(81)	(12)	74	62	32	(4)	(7)
FCF calculation									
FCF	**103**	**(124)**	**210**	**78**	**141**	**282**	**357**	**490**	**610**

	FY 21	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**Residual Value of firm**
Discounted FCF	70.42	115.63	209.20	238.99	297.16	334.49	5,335.49

PV of residual value	**3,235.71**
Sum of PVs of Future Cash Flows	**4,501.60**
Add Cash and Current Investments	**10**
FCFF =	**4,511.60**
FCFE = FCFF – Int(1 – Tax rate) + Net borrowing	
FCFE =	4,527.85
Weighted Avg Number of Shares	14.13
Value per share	**320.44**
CMP	**249.40**
Rating	BUY

SUMMARY OF THESIS/ WHY A BUY?

- The company lost 120 crores revenue and PBT of 26 crores to COVID. If this was added to the current numbers then there would have been 3% growth on the full year topline and 4% growth on profitability.
- Companies like Samsonite have announced closure of stores in India, showing increasing opportunity to gain market share in the coming years post recovery.
- Kotak Securities: Even though it is tricky to predict the direct and indirect impact of COVID 19 on FY21-22E demand, we expect VIP to race ahead of competition, resort to cost savings to help margin expansion, push for e-commerce and modern trade channels for sales and prepare for structural changes in the industry.
- ICICI Securities: VIP Industries over the years has maintained balance sheet prudence with stringent working capital policy (25% of sales), virtually debt-free status and a healthy 30 per cent plus ROCE. The company has the ability to tide over the tough market conditions better than its peers.
- Rollout of GST and other initiatives, the industry is set to move towards branded players and in that VIP Industries has a clear advantage.
- However, FY21 also to be weak for luggage industry due to adverse impact on COVID on tourism industry
- The company has 8-8.5 crores provision for debtors and also has made Rs 4.5 crore provision for inventory.

THANK YOU !