



SVS Securities Private Ltd.

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VIP Industries

Rs 422

Worth giving importance to

Sensex: 41,682

Nifty: 12,272

CONSOLIDATED FINANCIALS SUMMARY

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTEREST	PBDT	DEP.	PBT BEFORE EO	EO	PBT AFTER EO	TOTAL TAX	PAT	EPS (RS) *
1603(12)	1216.45	8.90%	107.9	2.57	110.47	1.18	109.29	14.18	95.11	0	95.11	28.65	66.46	4.7
1703(12)	1251.54	10.60%	132.34	7.55	139.89	0.68	139.21	13.61	125.6	0	125.6	40.39	85.21	6
1803(12)	1409.59	13.70%	193.37	9.31	202.68	0.3	202.38	12.85	189.53	0	189.53	62.78	126.75	9
1903(12)	1784.66	12.60%	224.72	8.32	233.04	1.49	231.55	16.61	214.94	0	214.94	69.67	145.27	10.3
2003(12P)	1893.42	16.20%	305.94	10.64	316.58	24.27	292.31	85.63	206.68	48.5	158.18	43.77	114.41	10.6
2103(12P)	2082.77	17.20%	358.24	11.7	369.94	26.7	343.24	94.19	249.05	0	249.05	64.75	184.29	13

* Annualized On current equity of Rs 28.26 crore of face value of Rs 10 each. (P): Projections. Figures in Rs crore. Source: Capitaline Databases

Incorporated in 1971, V.I.P. Industries is engaged interalia, in the business of manufacturing and marketing of luggage, bags and accessories. It is Asia's leading manufacturer/seller of hard and soft luggage, trolleys, rucksacks, backpacks, duffel bags, laptop bags, travel accessories, short haul essentials, soft uprights, vanity cases, hard suitcases, briefcases and uprights, among others.

The company has a range of brands across luggage categories. The company's brands include Carlton, VIP Bags, Skybags, Aristocrat, Alfa and Caprese. As on 31st March, 2019, the company has 1 Indian and 4 overseas wholly owned subsidiaries- Blow Plast Retail, V.I.P Industries Bangladesh, V.I.P Industries BD Manufacturing, V.I.P Luggage BD and V.I.P Accessories BD.

Bags and luggage are becoming status symbols

Bags and luggage are becoming status symbols as they are considered lifestyle products helping wider acceptance of fashionable and high-end luggage. Luggage need has also become occasion led. For instance the business travel luggage is generally different than the long holiday travel or the short weekend trips.

Luggage industry in India is gradually shifting from being a utility based product to a fashion statement. Increasing fashion consciousness and aspirational levels are driving robust demand towards branded players. Previously there used to be one luggage per family of 4-5 people but nowadays each one has his own luggage

Favourable Industry dynamics for organized players post GST

Indian luggage industry is valued at Rs 10000 crore and is largely dominated by the unorganized players. The top three branded players - VIP, Samsonite and Safari forms around 30% of this market. With GST implementation in 2017, the new cost dynamics has further led to industry shifting towards organized players.

The government reduced the GST rate on luggage from 28% to 18% in Q3FY18. Stabilization of the GST rate at 18% helped in fueling consumer demand. Due to reduced gap between organized and unorganized players on account of GST implementation, the consumer up gradation from un-branded to branded luggage has been witnessed. The reasons for shifting to branded luggage is due to reduction in the price gap between branded and unbranded luggage and consumers are willing to spend a bit extra to carry a brand as well as get peace of mind with the warranty offered by the branded luggage.



STOCK DATA

BSE Code	:	507880
BSE Group	:	A
NSE Code	:	VIPIND
Bloomberg	:	VIP IN
Reuters	:	VIPI.BO
Par Value	:	Rs 2
52-week High/Low	:	Rs 546 / Rs 342
Sector	:	Plastic Prod

SHAREHOLDING PATTERN *

Category	% of equity
Foreign	8.68
Institutions	10.26
Govt Holding	—
Corporate Holding	3.99
Promoters	53.46
Public & Others	23.62

* as on 30/09/2019

Source: Capitaline Databases



Soft luggage uprights continue to be the major contributor for the sales growth

Soft luggage uprights continue to be the major contributor for the sales growth along with backpacks. Daily usage mainly by students and bike commuting office-goers is increasing and thus leading to strong growth in Backpacks. Consumer preference for trendier backpacks which suit their persona has led to an increase in purchase frequency of backpacks.

Introduction of Duffels at competitive price points led to a very strong growth in the duffel segment. Polycarbonate luggage and duffel/duffel trolleys are important growth drivers.

New luggage categories like Polycarbonate uprights and backpacks have registered very good growth whereas traditional categories like PP hard luggage suitcases continue to decline. This is happening across all geographies including the country's heartland, which used to be the stronghold for traditional luggage. The shift is due to change in consumer preferences towards the convenience of light and wheeled travel products as compared to heavier luggage.

Multiple channels for selling

E-commerce channel is witnessing a very significant growth. This growth was on account of number of initiatives taken by e-commerce organizations to increase consumer demand throughout the year. The company is able to encash on these initiatives by tactical activations and ensuring adequate supply of stocks.

The Hypermarket channel continues to witness the strongest growth amongst channels suggesting that Indian consumers are showing preference towards affordable luggage and convenience of modern shopping formats which are clean and air conditioned.

General Trade channel is also doing steady. The company-owned stores and exclusive franchise stores also continue to do well. VIP Industries network of company and franchise operated outlets continues to expand.

Bangladesh facility to reduce dependence on china

China is the largest sourcing hub for soft luggage category, given the abundant availability of labour. Labour cost in China has been on an uptrend leading to input cost pressure. Also depreciating rupee (vs. dollar rate) brings in high volatility to gross margins. To address the issue, company over the years has reduced its dependency on sourcing soft luggage from China by setting up a manufacturing plant in Bangladesh through its wholly owned subsidiaries. VIP currently sources 70% from China (down from 90%) with the company expecting to take the share further down. The new facility in Bangladesh will aid in partially replacing the traded goods with manufactured goods, thus enabling better margins.

Newer and established brands to propel growth

VIP's has one of the most diversified luggage offerings. The company's sub brand like Aristocrat and Alfa cater to the mass segments while the brands like Carlton, Caprese and V.I.P. cater to the mid to premium segment. The

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company is also targeting the youth through its trendy brand – Skybags which is one of the fastest growing category

Skybags continues to do well and is now the largest luggage and backpack brand in the country for second year in a row.

Aristocrat, the value brand of the company is the fastest growing brand for the company. With the consumer shift happening from un-branded to affordable branded luggage, it is right time to build salience of Aristocrat in consumer's mind. In future too, the company is seeing big potential in capturing the value segment through Aristocrat.

Carlton Edge was launched with lifetime warranty including airline damage in the first quarter of FY 2019. There is a dedicated helpline for Carlton Edge consumers. A strong backend network is created to support the Carlton Edge launch. Specialised training programs for sales staff to improve personalized selling of Carlton Edge paid rich dividends. Carlton brand is for the new-age business traveler.

The company is tapping the high-end market where customers are discerning and willing to pay a premium for good bags. This segment is growing well and is poised to do very well. Carlton brand is expected to grow in future too with new launches and entering into newer segments.

Caprese, the ladies handbags brand, is registering extremely good growth. Robust advertising campaigns, along with differentiated and relevantly priced products tailored for each distribution channel have fueled the growth.

September 2019 quarter results

VIP Industries consolidated sales rose 3% in Q2FY20 compared to Q2FY19 to Rs 412.27 crore. OPM rose 340 basis points to 16.1% which saw OP rose 30% to Rs 66.24 crore. Other income rose 32% to Rs 2.7 crore while interest cost jumped to Rs 6.99 crore compared to Rs 4 lakh in Q2FY19. As depreciation grew 444% to Rs 21.17 crore, PBT fell 17% to Rs 40.78 crore. Tax provision fell 52% to Rs 7.86 crore. PAT remained flat at Rs 32.92 crore.

For H1FY 2020, sales grew 6% to Rs 976.45 crore. OPM rose 360 basis points to 19.6% which saw OP rose 30% to Rs 191.32 crore. Other income rose 44% to Rs 5.29 crore and interest cost jumped to Rs 12.27 crore compared to Rs 6 lakh in H1FY19. As depreciation grew 434% to Rs 40.38 crore, PBT before EO remained flat at Rs 143.96 crore. EO expense was Rs 48.5 crore compared to nil. Thus PBT after EO fell 33% to Rs 95.46 crore. As tax fell 42% to Rs 27.46 crore, PAT fell 29% to Rs 68 crore.

Outlook

V.I.P Industries has a very well differentiated offering for consumers belonging to different strata and regions of the country. This is possible because of sharp and distinctive brand positioning of all 6 brands. With Carlton, it appeals to the young business travelers. Skybags today is fast becoming an iconic youth brand. Brand V.I.P remains the first choice of Indian family travel, while Aristocrat and Alfa are providing value to consumers. Caprese caters to fast growing ladies handbags category. Catering to different strata of population helps the company to weather bad times (like current ones) with least adverse impact.

Once economy turns around the company's fortunes will turn around faster as leisure and business travelling will pick up faster than economy.

Soft luggage uprights continue to be the major contributor for the sales growth along with backpacks. Daily usage mainly by students and bike commuting office-goers is increasing

E-commerce channel is witnessing a very significant growth. This growth was on account of number of initiatives taken by e-commerce organizations to increase consumer demand throughout the year

Valuation

For FY20 we expect the company to register consolidated net sales and net profit of Rs 1893.42 crore and Rs 114.41 crore respectively. Because of severe economic slowdown and disruptions in travel plans due to various factors, FY20 is a year worth forgetting.

In FY21 we expect the company to register net sales and net profit of Rs 2082.77 crore and Rs 184.3 crore respectively.

On an equity of Rs 28.26 crore and face value of Rs 2 per share, EPS for FY20 and FY21 works out to Rs 10.6 and Rs 13 respectively.

The scrip trades at Rs 422. P/E on expected FY21 earnings works out to 33.

The company is also targeting the youth through its trendy brand – Skybags which is one of the fastest growing category

VIP INDUSTRIES: CONSOLIDATED RESULTS									
	1909 (03)	1809 (03)	VAR. (%)	1909 (06)	1809 (06)	VAR. (%)	1903 (12)	1803 (12)	VAR. (%)
Total Operating Inc	412.27	401.78	3	976.45	919.59	6	1784.66	1409.59	27
OPM (%)	16.1%	12.7%		19.6%	16.0%		12.6%	13.7%	
OP	66.24	51.07	30	191.32	147.28	30	224.72	193.37	16
Other Income	2.70	2.04	32	5.29	3.67	44	8.32	9.31	-11
PBIDT	68.94	53.11	30	196.61	150.95	30	233.04	202.68	15
Interest	6.99	0.04	999	12.27	0.06	999	1.49	0.30	397
PBDT	61.95	53.07	17	184.34	150.89	22	231.55	202.38	14
Depreciation	21.17	3.89	444	40.38	7.56	434	16.61	12.85	29
PBT Before EO	40.78	49.18	-17	143.96	143.33	0	214.94	189.53	13
EO	0.00	0.00		48.50	0.00		0.00	0.00	
PBT after EO	40.78	49.18		95.46	143.33		214.94	189.53	
Tax provision	7.86	16.37	-52	27.46	47.17	-42	69.67	62.78	11
PAT	32.92	32.81	0	68.00	96.16	-29	145.27	126.75	15
EPS*	#	#		#	#		10.3	9.0	

* Annualized On Current Equity Of Rs 28.26 Crore of face value of Rs 2 each. EO: Extraordinary Items.
 PL: Profit to Loss. EPS Is Calculated after excluding EO and relevant tax .# EPS not annualised due to seasonality of business. Figures in Rs crore. Source: Capitaline Database

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