

May 7, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	564		579	
Sales (Rs. m)	21,731	26,494	21,897	26,695
% Chng.	(0.8)	(0.8)		
EBITDA (Rs. m)	2,890	3,683	2,934	3,764
% Chng.	(1.5)	(2.2)		
EPS (Rs.)	13.2	17.1	13.6	17.6
% Chng.	(2.6)	(2.6)		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	14,096	17,847	21,731	26,494
EBITDA (Rs. m)	1,934	2,247	2,890	3,683
Margin (%)	13.7	12.6	13.3	13.9
PAT (Rs. m)	1,268	1,453	1,871	2,417
EPS (Rs.)	9.0	10.3	13.2	17.1
Gr. (%)	48.8	14.6	28.8	29.2
DPS (Rs.)	3.0	3.2	4.2	5.5
Yield (%)	0.7	0.7	1.0	1.3
RoE (%)	25.6	25.0	26.4	27.7
RoCE (%)	36.9	31.2	38.2	39.9
EV/Sales (x)	4.3	3.5	2.8	2.3
EV/EBITDA (x)	31.0	27.4	21.0	16.4
PE (x)	48.0	41.9	32.5	25.2
P/BV (x)	12.5	10.5	8.6	7.0

Key Data

VIPI.BO | VIP.IN

52-W High / Low	Rs.647 / Rs.365
Sensex / Nifty	38,277 / 11,498
Market Cap	Rs.61bn/ \$ 878m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.471.84m

Shareholding Pattern (%)

Promoter's	53.46
Foreign	8.70
Domestic Institution	9.15
Public & Others	28.69
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.6)	(5.0)	6.8
Relative	(8.2)	(12.5)	(1.7)

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Adverse product mix & rupee dents margin

Quick pointers

- Price hike of 4-5% taken in the month of March across channels & SKUs.
- Sales and PAT from low cost destination Bangladesh increases 98.0% YoY to Rs392mn and 46.9% YoY to Rs47mn respectively.
- Cash conversion cycle increases from 73 days in FY18 to 104 days in FY19 due to piling inventory and debtors.

VIP's top-line increased 20.0% YoY to Rs4,350 mn (PLe of Rs4,420mn) due to strong growth from mass brand Aristocrat and premium brand Caprese (albeit on a low base) further aided by backpacks (category growing in excess of 30%). However, gross margins declined 710bps YoY to 47.5% (PLe of 46.6%) due to 1) adverse product mix, 2) increase in import duty by 5% and 3) rupee depreciation by 10%. Although margin pressure was evident in the quarter, product premiumisation (rising share of Caprese and Carlton & repositioning of brand VIP), strategy to take calibrated price hikes and increase in production from captive facilities at Bangladesh will aid in 130bps EBITDA margin expansion over FY19-21E. We remain positive on VIP given market leadership (~50% revenue share) in the organized luggage industry, well-diversified product portfolio (six brands and multiple SKUs exceeding 1,500) and solid brand salience (brand-ex is ~5-7% of sales). We value the stock at 33x FY21E EPS in light of strong growth prospects (sales/PAT to grow at a CAGR of 21.8%/29.0% over FY19-21E) and the size of opportunity pie (transition towards organized market) VIP has at its disposal post GST. Maintain BUY with a TP of Rs564 (earlier Rs579).

Mass brand Aristocrat drives sales: Top-line increased 20.0% YoY due to strong growth from mass brand aristocrat. Volumes were up 25% indicating that sales of small ticket items like backpack and handbags also increased. We marginally reduce our top-line estimates by 1% for FY20E and FY21E given that focus is on restoring gross margins which can hurt growth in the interim.

Adverse rupee & product mix dent margins: In line with fall in gross margin, EBITDA and PAT margin declined 590 bps YoY and 390 bps YoY to 9.1% and 5.8% respectively due to depreciating rupee and adverse product mix. In line with the current quarter performance, we marginally reduce our EBITDA estimates by 1.5%/2.2% for FY20E/FY21E.

Concall highlights: 1) Volumes were up by 25% 2) Sales from Bangladesh operations increased 126.7% YoY to Rs1,292mn in FY19. However, PAT margin declined to 13.5% as minimum wage in Bangladesh increased by 40-50% (wage hike happens every 4-5 years and hence is not recurring in nature) 3) Inventory increased to Rs5,273.5mn in FY19 as the company piled up SL inventory in anticipation of higher sales but the mix tilted towards HL 4) Receivables piled up to Rs2,986.1 mn as payment from CSD was delayed 5) Employee cost increased 30.5% YoY as hiring has increased plus incentives were paid for achieving targets 6) A&P spend will continue to remain in the range of 5-7% of sales 7) Capex is expected to be in the range of Rs500mn each year for FY20 and FY21. 8) Brand VIP has been relaunched with a new logo & by roping in a new brand ambassador 9) The stock that was damaged by the fire incident was fully insured.

Exhibit 1: Q4FY19 Result Overview - Consolidated (Rs mn)

Y/e March	Q4FY19	Q4FY18	YoY gr.	Q3FY19	FY19	FY18	YoY gr.
Net sales	4,350	3,626	20.0%	4,301	17,847	14,096	26.6%
Total raw material cost	2,283	1,644	38.8%	2,248	9,044	7,017	28.9%
<i>As a % of sales</i>	<i>52.5%</i>	<i>45.4%</i>		<i>52.3%</i>	<i>50.7%</i>	<i>49.8%</i>	
Gross Profit	2,067	1,981	4.3%	2,053	8,803	7,079	24.4%
<i>Gross margin</i>	<i>47.5%</i>	<i>54.6%</i>		<i>47.7%</i>	<i>49.3%</i>	<i>50.2%</i>	
Employee expenses	551	423	30.5%	534	2,011	1,594	26.1%
<i>As a % of sales</i>	<i>12.7%</i>	<i>11.7%</i>		<i>12.4%</i>	<i>11.3%</i>	<i>11.3%</i>	
Other expenses	1,120	1,016	10.3%	1,142	4,545	3,551	28.0%
<i>As a % of sales</i>	<i>25.7%</i>	<i>28.0%</i>		<i>26.6%</i>	<i>25.5%</i>	<i>25.2%</i>	
EBITDA	396	543	-27.1%	377	2,247	1,934	16.2%
<i>EBITDA margin</i>	<i>9.1%</i>	<i>15.0%</i>		<i>8.8%</i>	<i>12.6%</i>	<i>13.7%</i>	
Depreciation	47	35	33.6%	44	166	129	29.3%
EBIT	349	508	-31.3%	333	2,081	1,805	15.3%
<i>EBIT margin</i>	<i>8.0%</i>	<i>14.0%</i>		<i>7.7%</i>	<i>11.7%</i>	<i>12.8%</i>	
Interest cost	7	1	438.5%	7	15	3	396.7%
Other income	20	24	-16.2%	28	83	93	-10.6%
PBT	362	531	-31.8%	354	2,149	1,895	13.4%
Tax expenses	109	180	-39.4%	116	697	628	11.0%
<i>Tax rate</i>	<i>30.1%</i>	<i>33.9%</i>		<i>32.7%</i>	<i>32.4%</i>	<i>33.1%</i>	
PAT	253	351	-27.9%	238	1,453	1,268	14.6%
<i>PAT margin</i>	<i>5.8%</i>	<i>9.7%</i>		<i>5.5%</i>	<i>8.1%</i>	<i>9.0%</i>	
EPS (Rs)	1.8	2.5	-27.8%	1.7	10.3	9.0	14.6%

Source: Company, PL

Exhibit 2: Sales & profitability profile of Bangladesh operations

Particulars (Rs mn)	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19	FY17	FY18	FY19	FY20E	FY21E
Sales	159	138	50	184	198	252	259	389	392	490	570	1,292	1,680	2,183
PAT	33	32	1	30	32	40	27	61	47	83	95	175	286	371
<i>PAT margin</i>	<i>20.8%</i>	<i>23.2%</i>	<i>2.0%</i>	<i>16.3%</i>	<i>16.2%</i>	<i>15.9%</i>	<i>10.4%</i>	<i>15.7%</i>	<i>12.0%</i>	<i>16.9%</i>	<i>16.7%</i>	<i>13.5%</i>	<i>17.0%</i>	<i>17.0%</i>
<i>Bangladesh's sales a % of total sales</i>	<i>5.2%</i>	<i>3.5%</i>	<i>1.6%</i>	<i>5.4%</i>	<i>5.5%</i>	<i>4.9%</i>	<i>6.4%</i>	<i>9.0%</i>	<i>9.0%</i>	<i>3.9%</i>	<i>4.0%</i>	<i>7.2%</i>	<i>7.7%</i>	<i>8.2%</i>
Standalone PAT	155	378	242	241	324	599	310	199	184	764	1,186	1,288		
<i>Standalone PAT margin</i>	<i>5.1%</i>	<i>9.5%</i>	<i>7.8%</i>	<i>7.1%</i>	<i>8.9%</i>	<i>11.6%</i>	<i>7.7%</i>	<i>4.6%</i>	<i>4.2%</i>	<i>6.1%</i>	<i>8.4%</i>	<i>7.2%</i>		

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	14,096	17,847	21,731	26,494
YoY gr. (%)	12.6	26.6	21.8	21.9
Cost of Goods Sold	7,017	9,044	11,104	13,512
Gross Profit	7,079	8,803	10,626	12,982
Margin (%)	50.2	49.3	48.9	49.0
Employee Cost	1,594	2,011	2,390	2,861
Other Expenses	3,551	4,545	5,346	6,438
EBITDA	1,934	2,247	2,890	3,683
YoY gr. (%)	46.1	16.2	28.6	27.4
Margin (%)	13.7	12.6	13.3	13.9
Depreciation and Amortization	129	166	182	200
EBIT	1,805	2,081	2,708	3,483
Margin (%)	12.8	11.7	12.5	13.1
Net Interest	3	15	20	3
Other Income	93	83	104	127
Profit Before Tax	1,895	2,149	2,793	3,607
Margin (%)	13.4	12.0	12.9	13.6
Total Tax	628	697	922	1,190
Effective tax rate (%)	33.1	32.4	33.0	33.0
Profit after tax	1,268	1,453	1,871	2,417
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,268	1,453	1,871	2,417
YoY gr. (%)	48.8	14.6	28.8	29.2
Margin (%)	9.0	8.1	8.6	9.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,268	1,453	1,871	2,417
YoY gr. (%)	48.8	14.6	28.8	29.2
Margin (%)	9.0	8.1	8.6	9.1
Other Comprehensive Income	(17)	(1)	-	-
Total Comprehensive Income	1,251	1,452	1,871	2,417
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	9.0	10.3	13.2	17.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	1,028	1,591	2,099	2,608
Tangibles	1,004	1,541	2,041	2,541
Intangibles	25	50	58	67
Acc: Dep / Amortization	258	424	606	806
Tangibles	244	403	578	769
Intangibles	14	21	28	36
Net fixed assets	770	1,167	1,493	1,802
Tangibles	760	1,138	1,464	1,772
Intangibles	11	29	29	30
Capital Work In Progress	32	58	47	28
Goodwill	-	-	-	-
Non-Current Investments	182	222	271	355
Net Deferred tax assets	54	49	70	90
Other Non-Current Assets	77	89	109	159
Current Assets				
Investments	714	-	-	-
Inventories	3,165	5,274	5,239	6,533
Trade receivables	1,766	2,986	3,334	3,992
Cash & Bank Balance	238	142	242	389
Other Current Assets	666	603	761	927
Total Assets	7,727	10,711	11,724	14,460
Equity				
Equity Share Capital	283	283	283	283
Other Equity	4,608	5,531	6,809	8,449
Total Networkth	4,891	5,814	7,092	8,731
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	93	119	159	193
Other non current liabilities	1	1	2	3
Current Liabilities				
ST Debt / Current of LT Debt	-	862	-	-
Trade payables	2,125	3,184	3,572	4,500
Other current liabilities	611	707	878	1,006
Total Equity & Liabilities	7,727	10,711	11,724	14,460

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	1,895	2,149	2,793	3,607
Add. Depreciation	129	166	182	200
Add. Interest	2	15	20	3
Less Financial Other Income	93	83	104	127
Add. Other	(42)	-	-	-
Op. profit before WC changes	1,985	2,330	2,994	3,810
Net Changes-WC	(486)	(2,151)	58	(1,171)
Direct tax	(640)	(731)	(942)	(1,211)
Net cash from Op. activities	859	(551)	2,110	1,428
Capital expenditures	(309)	(526)	(500)	(500)
Interest / Dividend Income	53	-	-	-
Others	(35)	664	(36)	(1)
Net Cash from Inv. activities	(291)	138	(536)	(501)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	862	(862)	-
Dividend paid	(437)	(452)	(594)	(777)
Interest paid	(2)	(15)	(20)	(3)
Others	-	-	-	-
Net cash from Fin. activities	(439)	394	(1,475)	(780)
Net change in cash	129	(97)	99	148
Free Cash Flow	540	(1,077)	1,610	928

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	9.0	10.3	13.2	17.1
CEPS	9.9	11.5	14.5	18.5
BVPS	34.6	41.1	50.2	61.8
FCF	3.8	(7.6)	11.4	6.6
DPS	3.0	3.2	4.2	5.5
Return Ratio(%)				
RoCE	36.9	31.2	38.2	39.9
ROIC	25.0	21.0	24.7	25.5
RoE	25.6	25.0	26.4	27.7
Balance Sheet				
Net Debt : Equity (x)	(0.2)	0.1	0.0	0.0
Net Working Capital (Days)	73	104	84	83
Valuation(x)				
PER	48.0	41.9	32.5	25.2
P/B	12.5	10.5	8.6	7.0
P/CEPS	43.6	37.6	29.7	23.3
EV/EBITDA	31.0	27.4	21.0	16.4
EV/Sales	4.3	3.5	2.8	2.3
Dividend Yield (%)	0.7	0.7	1.0	1.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	5,178	4,018	4,301	4,350
YoY gr. (%)	29.5	29.9	27.2	20.0
Raw Material Expenses	2,571	2,020	2,248	2,283
Gross Profit	2,607	1,998	2,053	2,067
Margin (%)	50.3	49.7	47.7	47.5
EBITDA	962	511	377	396
YoY gr. (%)	56.9	39.6	(8.4)	(27.1)
Margin (%)	18.6	12.7	8.8	9.1
Depreciation / Depletion	37	39	44	47
EBIT	925	472	333	349
Margin (%)	17.9	11.7	7.7	8.0
Net Interest	-	-	7	7
Other Income	16	20	28	20
Profit before Tax	942	492	354	362
Margin (%)	18.2	12.2	8.2	8.3
Total Tax	308	164	116	109
Effective tax rate (%)	32.7	33.3	32.7	30.1
Profit after Tax	634	328	238	253
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	634	328	238	253
YoY gr. (%)	54.6	37.7	(11.4)	(27.9)
Margin (%)	12.2	8.2	5.5	5.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	634	328	238	253
YoY gr. (%)	54.6	37.7	(11.4)	(27.9)
Margin (%)	12.2	8.2	5.5	5.8
Other Comprehensive Income	16	39	(35)	(21)
Total Comprehensive Income	650	367	203	232
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	4.5	2.3	1.7	1.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	25-Mar-19	BUY	579	444
2	5-Apr-19	BUY	579	477

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Accumulate	662	495
3	Music Broadcast	BUY	81	59
4	Navneet Education	BUY	157	115
5	S Chand and Company	Hold	234	199
6	V.I.P. Industries	BUY	579	477
7	Zee Media Corporation	BUY	38	18

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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