

VIP Industries

HOLD

Another weak quarter; No respite in the near future

Summary

VIP Industries reported significantly weaker than expected Q2FY21 results. This was due to adverse impact of COVID-19 that has affected travel and tourism; thus adversely affecting luggage, handbags and backpack sales. VIP's net sales fell 75.1% YoY to Rs1,028 mn (50% below our forecast). EBITDA loss stood at Rs221 mn compared to EBITDA of Rs663 mn in Q2FY20. The company aims to conserve cash and cut fixed costs in FY21.

We introduce FY23 estimates in this report. We lower our sales/EBITDA/EPS estimates for FY21 by 16%/21%/68% as there are no visible signs of improvement in travel and tourism in the near-term. Also, we cut our FY22 sales/EBITDA/EPS by 16%/12%/17% as we now expect travel and tourism industry to revive slowly in FY22. We value the stock at a PER of 28x FY23 EPS to derive a target price of Rs279 (earlier Rs255) and maintain our HOLD rating.

Key Highlights and Investment Rationale

- VIP focused on cost cutting initiatives:** VIP has plans to cut costs worth Rs1.8 bn in FY21 - 50% of these cost initiatives are likely to sustain even when normalcy in sales is restored. It aims to increase sales through e-com channel and targets to reverse-engineer costs for those products as margins are lower in e-com. VIP plans to shift Haridwar's plant and machinery to its Nasik location and will dispose land and building at Haridwar. VIP has borrowed Rs2 bn to ensure liquidity in case of contingencies; however, its net debt remains negligible.
- Bangladesh plant to cater to international sales:** VIP aims to manufacture luggage and handbags at its Bangladesh plant not only for its Indian operations but also for international sales. It has started manufacturing masks at its Bangladesh facility. The Bangladesh plant will be meaningfully commissioned from Q3FY21.
- Outlook and valuation:** FY20 sales growth has been weak for most of the luggage players mainly due to economic slowdown. Even FY21 will be very weak for most of the luggage companies due to adverse impact of COVID-19 on tourism industry. Historically, luggage industry had a strong year after two consecutive weak years due to pent up demand. Hence, we had earlier expected a stronger recovery in FY22 on a very weak base. However, the recovery is likely to be slow as the impact on travel and tourism is likely to remain even in FY22. Hence, we await more clarity on revival in travel and tourism and better price points to enter VIP stock.

TP	Rs279		
CMP	Rs291		
Potential upside / downside	-4%		
Previous Rating	HOLD		
V/s Consensus			
EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	0.5	8.1	10.0
Consensus	(4.9)	8.5	12.1
% difference	nm	(4.5)	(17.6)

Shareholding Pattern (%)

Promoters	53.5
FII	2.5
DII	15.4
Public	28.6

Price Performance (%)

	-1m	-3m	-12m
Absolute	0.3	11.4	(33.2)
Rel to Sensex	5.6	11.4	(27.5)

Key Stock Data

Bloomberg / Reuters	VIP IN /VIPI.BO
Sector	Other Apparels & Accessories
Shares o/s (mn)	141
Market cap. (Rs mn)	41,053
Market cap. (US\$ mn)	548
3-m daily average value (Rs mn)	148.1
52-week high / low	Rs520 / 188
Nifty / Sensex	42,597 / 12,461

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	17,847	17,183	4,858	12,498	13,997
EBITDA	2,247	4,246	634	2,474	2,770
EBITDA (%)	12.6	24.7	13.0	19.8	19.8
Adj. PAT	1,452	2,936	72	1,152	1,408
EPS (Rs)	10.3	20.8	0.5	8.1	10.0
EPS Growth (%)	16.0	102.2	nm	nm	22.3
PE (x)	28.3	14.0	nm	35.7	29.2
Dividend Yield (%)	1.1	1.8	-	0.7	1.0
EV/EBITDA (x)	18.6	9.7	61.7	16.0	14.0
RoE (%)	27.1	49.3	1.2	19.2	20.3
RoCE (%)	35.9	45.6	nm	20.4	22.7

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly Snapshot (Consolidated)

(Rs mn)

Year-end: March	Q2FY21	Q1FY21	QoQ (%)	Q2FY20	YoY (%)
Net sales	1,028	403	154.8	4,123	(75.1)
Expenditure	1,249	982	27.2	3,460	(63.9)
EBITDA	(221)	(578)	-	663	-
<i>EBITDA margin (%)</i>	<i>(21.5)</i>	<i>(143.4)</i>	<i>nm</i>	<i>16.1</i>	<i>nm</i>
Interest	78	65	19.3	70	11.6
Depreciation	186	209	(10.8)	212	(12.0)
PBT	(435)	(674)	-	408	-
Tax	(81)	(161)	-	79	-
PAT	(354)	(513)	-	329	-
Adj. diluted EPS (Rs)	(2.5)	(3.6)	-	2.3	-

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q2FY21E	Q2FY21A	Variance (%)
Net sales	2,061	1,028	(50.2)
EBTIDA	239	(221)	-
<i>Margin (%)</i>	<i>11.6</i>	<i>(21.5)</i>	<i>nm</i>
PAT	108	(354)	-
Adj. diluted EPS (Rs)	0.8	(2.5)	-

Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates

	FY21E			FY22E			FY23E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	5,804	4,858	(16.3)	14,958	12,498	(16.4)	13,997
EBITDA (Rs mn)	799	634	(20.7)	2,816	2,474	(12.2)	2,770
EBITDA margin (%)	13.8	13.0	(72)bps	18.8	18.8	-	19.8
Net profit (Rs mn)	223	72	(67.7)	1,388	1,152	(17.0)	1,408
EPS (Rs)	1.6	0.5	(67.7)	9.8	8.1	(17.0)	10.0

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account					(Rs mn)
Year-end: March	FY20	FY21E	FY22E	FY23E	
Net sales	17,183	4,858	12,498	13,997	
<i>Growth (%)</i>	<i>(3.7)</i>	<i>(71.7)</i>	<i>157.2</i>	<i>12.0</i>	
Operating expenses	(12,937)	(4,224)	(10,024)	(11,227)	
EBITDA	4,246	634	2,474	2,770	
<i>Growth (%)</i>	<i>89.0</i>	<i>(85.1)</i>	<i>290.3</i>	<i>12.0</i>	
Depreciation	(839)	(768)	(776)	(784)	
EBIT	3,408	(134)	1,698	1,987	
Interest paid	(230)	(284)	(227)	(182)	
Other income	125	248	69	77	
Pre-tax profit	2,797	(170)	1,539	1,882	
Tax	(367)	242	(388)	(474)	
<i>Effective tax rate (%)</i>	<i>13.1</i>	<i>142.4</i>	<i>25.2</i>	<i>25.2</i>	
Minority interest	-	-	-	-	
Net profit	2,431	72	1,152	1,408	
Exceptional items	(505)	-	-	-	
Adjusted net profit	2,936	72	1,152	1,408	
<i>Growth (%)</i>	<i>102.2</i>	<i>(97.5)</i>	<i>1,500.9</i>	<i>22.3</i>	
<i>Shares o/s (mn)</i>	<i>141</i>	<i>141</i>	<i>141</i>	<i>141</i>	

Cash Flow Statement					(Rs mn)
Year-end: March	FY20	FY21E	FY22E	FY23E	
Pre-tax profit	2,797	(170)	1,539	1,882	
Depreciation	865	768	776	784	
Tax paid	(385)	242	(388)	(475)	
Chg in working capital	1,202	1,986	(1,344)	(303)	
Other operating activities	(1,669)	378	294	561	
Cash flow from operations (a)	2,810	3,204	877	2,449	
Capital expenditure	(346)	(400)	(500)	(500)	
Chg in investments	(401)	-	-	-	
Other investing activities	-	-	-	-	
Cash flow from investing (b)	(747)	(400)	(500)	(500)	
Equity raised/(repaid)	(0)	-	-	-	
Debt raised/(repaid)	(540)	678	(1,000)	-	
Dividend (incl. tax)	(861)	-	(283)	(424)	
Chg in minorities	-	-	-	-	
Other financing activities	-	-	-	-	
Cash flow from financing (c)	(1,401)	678	(1,283)	(424)	
Net chg in cash (a+b+c)	662	3,482	(906)	1,525	

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	656	288	12	(272)
Investments	431	431	431	431
Other non-curr assets	3,150	3,150	3,159	3,169
Current assets	8,211	5,984	7,962	9,595
Inventories	4,514	1,597	3,424	3,835
Sundry Debtors	2,674	865	2,226	2,493
Cash and Bank	108	2,975	1,449	2,347
Loans and advances	301	301	301	301
Total assets	12,447	9,852	11,564	12,924
Shareholders' funds	6,101	5,568	6,437	7,421
Share capital	283	283	283	283
Reserves & surplus	5,819	5,285	6,154	7,138
Total Debt	322	1,000	-	-
Secured loans	-	-	-	-
Unsecured loans	322	1,000	-	-
Other liabilities	1,836	1,836	1,836	1,837
Curr Liab & prov	4,188	1,448	3,291	3,666
Current liabilities	3,956	1,305	3,092	3,456
Provisions	232	143	199	210
Total liabilities	6,346	4,284	5,128	5,503
Total equity & liabilities	12,447	9,852	11,564	12,924
Book Value (Rs)	43	39	46	53

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	20.8	0.5	8.1	10.0
Adj. EPS growth (%)	102.2	nm	nm	22.3
EBITDA margin (%)	24.7	13.0	19.8	19.8
Pre-tax margin (%)	16.3	(3.5)	12.3	13.4
ROE (%)	49.3	1.2	19.2	20.3
ROCE (%)	45.6	nm	20.4	22.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.5	0.4	1.2	1.1
Leverage factor (x)	1.9	1.9	1.8	1.8
Net margin (%)	17.1	1.5	9.2	10.1
Net Debt/Equity (x)	0.0	(0.4)	(0.2)	(0.3)
Working Capital & Liquidity ratio				
Inventory days	96	120	100	100
Receivable days	57	65	65	65
Payable days	99	98	100	100

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	14.0	nm	35.7	29.2
Price / Book value (x)	6.7	7.4	6.4	5.5
PCE (x)	10.9	48.9	21.3	18.7
EV / Net sales (x)	2.4	8.0	3.2	2.8
EV / EBITDA (x)	9.7	61.7	16.0	14.0
Dividend Yield (%)	1.8	-	0.7	1.0



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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