

25<sup>th</sup> Feb. 2021

## VIP Industries –BUY

**CMP** :Rs.390  
**Target Price** :Rs.487  
**Upside** : 25%+  
**Stop Loss** :Rs 350 (Closingbasis)

### Investment Thesis

VIP Industries is one of Asia's leading seller/manufacturer of various types of luggages, backpacks and handbags. Over the years, VIP Industries has made its presence in mid-priced segments (Rs.3,000-Rs.5,000) in which it has ~70% market share. As for the other segments are concerned, the low-priced SKU's (< Rs.3,000) were dominated by unorganized players, whereas the premium segment (> Rs.5,000) were catered by players such as Samsonite. Over the last few quarters, VIP has outlined significant opportunities to capture the segments in which it does not have a strong foothold through investments in marketing spends and new trendy product launches. We believe, VIP industries' is well poised to capture high trajectory growth opportunities in the backpack and handbag segments through its brands; Skybags and Caprese.

Post implementation of GST, VIP Industries' entry level brand, Aristocrat, has witnessed significant traction with the brand reporting growth as high as 70% in FY18. Robust growth can be also attributed to aggressive investments in marketing spends to enhance the brand profile. The gross margin for the Aristocrat brand is significantly lower as compared to company's average (lower by ~500 bps). To address the same, the management has undertaken several efforts such as negotiating with the Chinese suppliers and value engineering the products to bring down the product cost. While the efforts will take some time to materialize, the management is confident of sustaining healthy revenue trajectory driven by market share gains mainly from unorganized players. VIP reported significantly weaker than expected Q1FY21 results. This was due to

adverse impact of COVID-19 which has affected luggage sales. Its net sales fell 92.9% YoY at Rs 403mn. It reported an EBITDA loss of Rs578 mn due to sharp fall in sales and sticky employee costs (fell only 7.3% QoQ to Rs387 mn). VIP's net loss stood at Rs513 mn.

SEBI Multi cap Funds Reclassification, the capital will flow towards high quality small and Mid-Caps. Companies with growth more than 15% and ROE greater than 15% would be the ones where more capital allocation would be expected. In the next few days, there could be some excitement in the SMID stocks however in the long term fundamentally strong stocks would be the only beneficiary. For investment we have to look for category leaders, niche players with strong B/S, companies which can manage during bad market cycles or look for pockets of excellence in the sectors and stocks. We believe just from the regulation capital will not flow across stocks, only strong fundamental stocks would get the benefit and VIP industry is one of them.

### Stock Data

Market Cap (cr)	5510
Market Cap (\$ Mn)	754
Shares O/S (in Mn)	141
Daily Avg. Value Rs in mn (3 month)	333.8
52-Week Range (Rs.)	520/ 188

### Shareholding Pattern

Promoters	53.5%
FII's	4.1%
Institutions	12.2%
Others (incl. body corporate)	30.2%

Performance (%)	1M	3M	1Yr
Absolute	-7.6%	31.9%	-24.6%
Rel to Sensex	-11.8%	-2.1%	-38.9%

### Key Ratios

Div Yield	0.7%
TTM PE	19x
ROE	26.9%
TTM EPS (Rs.)	6.28/-

## Key Business Highlights

- VIP Industries is Asia's leading manufacturer/seller of hard and soft luggage, backpacks, suitcases, shoulder bags, office bags and duffel trolleys. It has range of leading brands, positioned across entire price range, catering to value, mid and premium price points.
- Apart from its flagship brand, 'VIP', it has various other popular brands such as Alpha, Aristocrat, Skybags, Carlton and Caprese.
- VIP Industries has a robust distribution network having 11,000+ point of sales, comprising of 500+ exclusive branded outlets. Hypermarket and e-commerce channels have been among the fastest growing distribution vehicle for VIP Industries in the recent times. VIP has lowered its fixed costs to Rs35 cr per quarter from Rs50 cr in Q1FY20. It has also shut 100 (out of 250) exclusive stores which can be re-opened as and when demand improves. Revenue & PAT loss for Bangladesh operations stood at Rs27cr/(Rs1cr) respectively

## Valuation

- VIP Industries' flagship brand 'VIP' yields healthy gross margins, however the brand has struggled to maintain healthy revenue trajectory. Subsequently, the revenue contribution from the VIP brand has declined from ~ 50% in FY14 to ~ 40% in FY19. In a bid to revive the brand, the management has undertaken several initiatives, such as, relaunched VIP brand with a new logo, launched new trendy product lines, repositioned as a holiday theme luggage as well as spent aggressively on promotional expenses VIP industries has recently invested in IPL sponsorship and appointed new brand ambassadors. The efforts were visible as management indicated that the brand performed relatively better in Q4FY21.
- Over the last few quarters, VIP Industries has outlined significant opportunities to capture segments in which it does not have strong foothold through investments in marketing spends and new trendy product launches. In the recent past, it has consistently invested towards spreading its product awareness and creating a brand value. While revenues increased at a CAGR of ~13% during FY13-19, the advertising and promotional spends increased by a CAGR of ~15% in FY13-19. However, in Q1FY20, the management had to tone down its promotional spends in order to maintain the profitability. We expect, VIP Industries to increase its advertisement spends, amid the recent corporate tax rate cut ahead of the upcoming wedding and festive season. VIP Industries commands ~55-60% of market share in organized market and is likely to improve on the back of consumer discretionary spending and recovery in economic activity. Rs55 Cr of debt repaid during 3QFY21. Plans to be debt free by FY22E
- With one of Asia's leading seller/manufacturer of various types of luggages, backpacks and handbags, well poised to capture high trajectory growth opportunities, aggressive investments in marketing spends to enhance the brand profile and recent corporate tax rate cut, VIP Industries at 32x FY23E EPS of Rs.15.2 to arrive at target price of Rs.487, an upside of ~25%.

## Risk & Concern

- Any increase in competition from the organized sector can affect VIP Industries' sales and profitability growth.
- VIP Industries majorly imports its requirements of soft luggage from China in US\$, any weak US\$/INR and / or strong US\$/Yuan may impact its margins negatively.
- Any substantial rise in polypropylene and aluminum prices will adversely impact the company's margins and, hence, profitability.

## Graphs & Charts

Figure 1: Net Sales Trend

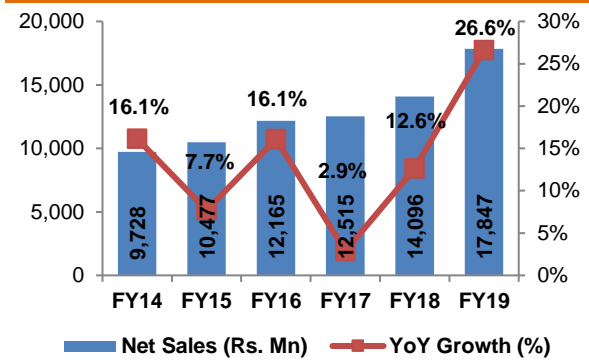


Figure 2: EBITDA & EBITDA Margin Trend

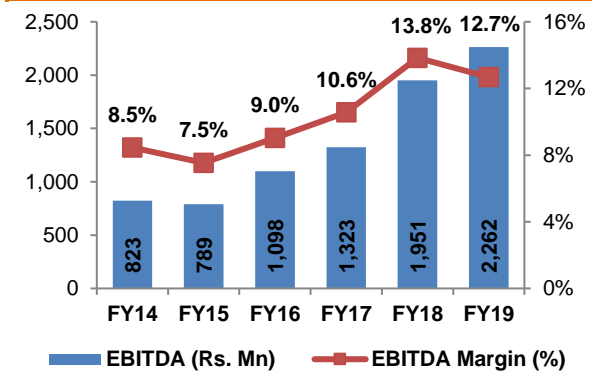


Figure 3: PAT Trend

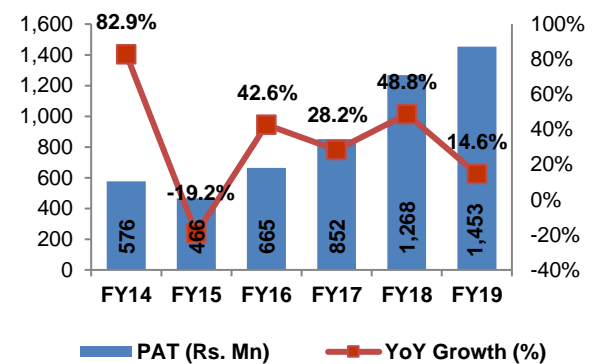
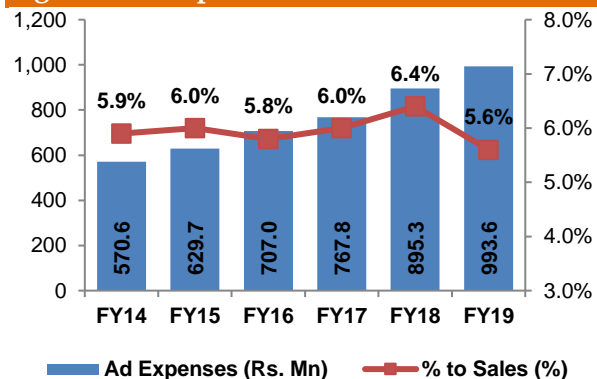


Figure 4: Ad Expenses Trend



**Disclosure:**

Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. Bonanza Portfolio Ltd is responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. Bonanza Portfolio Ltd or its associates or Analyst or his relatives may or may not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

Bonanza Portfolio Ltd operates under the regulation of SEBI Regn No.INM000012306

**Disclaimer:**

This research report has been published by Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of Bonanza portfolio Ltd shall be liable. Research report may differ between Bonanza portfolio Ltd RAs and other companies on account of differences in personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the subject company or third party in connection with the research report

Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 |

NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

