

November 24, 2020

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

| | Current | | Previous | |
|----------------|------------|--------|------------|--------|
| | FY22E | FY23E | FY22E | FY23E |
| Rating | ACCUMULATE | | ACCUMULATE | |
| Target Price | 384 | | 333 | |
| Sales (Rs. m) | 15,032 | 18,047 | 16,444 | 19,193 |
| % Chng. | (8.6) | (6.0) | | |
| EBITDA (Rs. m) | 2,556 | 3,573 | 2,804 | 3,551 |
| % Chng. | (8.9) | 0.6 | | |
| EPS (Rs.) | 7.9 | 13.7 | 8.8 | 13.3 |
| % Chng. | (10.4) | 3.0 | | |

Key Financials - Consolidated

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|----------------|--------|---------|--------|--------|
| Sales (Rs. m) | 17,183 | 6,406 | 15,032 | 18,047 |
| EBITDA (Rs. m) | 2,913 | (844) | 2,556 | 3,573 |
| Margin (%) | 17.0 | (13.2) | 17.0 | 19.8 |
| PAT (Rs. m) | 1,602 | (1,291) | 1,119 | 1,937 |
| EPS (Rs.) | 11.3 | (9.1) | 7.9 | 13.7 |
| Gr. (%) | 10.3 | NA | NA | 73.1 |
| DPS (Rs.) | 3.2 | - | 3.0 | 3.0 |
| Yield (%) | 0.9 | - | 0.9 | 0.9 |
| RoE (%) | 18.6 | NA | 20.3 | 27.6 |
| RoCE (%) | 32.3 | NA | 23.1 | 36.1 |
| EV/Sales (x) | 2.9 | 7.5 | 3.3 | 2.7 |
| EV/EBITDA (x) | 17.1 | NA | 19.4 | 13.5 |
| PE (x) | 29.7 | NA | 42.6 | 24.6 |
| P/BV (x) | 7.8 | 9.9 | 8.6 | 6.8 |

Key Data

VIPI.BO | VIP IN

| | |
|---------------------|-------------------|
| 52-W High / Low | Rs.520 / Rs.188 |
| Sensex / Nifty | 44,077 / 12,926 |
| Market Cap | Rs.48bn / \$ 643m |
| Shares Outstanding | 141m |
| 3M Avg. Daily Value | Rs.379.52m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 53.46 |
| Foreign | 2.48 |
| Domestic Institution | 15.64 |
| Public & Others | 28.42 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|------|------|--------|
| Absolute | 21.1 | 55.3 | (21.8) |
| Relative | 11.8 | 8.1 | (28.4) |

Jinesh Joshi

jineshjoshi@plindia.com | 91-22-66322238

Recovery in sight; cost reduction to aid profits

In a group call we hosted recently, management of VIP Industries highlighted 1) timeline of ~12-18 months for sales to revert to pre-COVID levels 2) plans to reduce cost by ~1.8bn in FY21E (~50% of the reduction is expected to be sustainable in nature) and 3) pressure on GM in FY21 (replica of 1HFY21) given higher discounts and reduction in share of Bangladesh operations. Amid indications of slightly back-ended recovery we cut our sales estimates by 5%/9%/6% for FY21/FY22/FY23 respectively. While we expect EBITDA loss to widen in FY21E to Rs844mn (Rs719mn earlier) and cut our FY22E EBITDA estimates by 9% due to realignment in our sales/GM estimates, our FY23E EBITDA estimates are broadly intact as we expect 280 bps margin expansion over 3 years because of permanent reset in cost base. We believe early signs of green-shoots are evident given 1) 34% MoM rise in domestic passenger traffic in October with daily departures at ~51-52% of pre-COVID capacity and 2) gradual unlocking of the economy. Consequently, we raise our target P/E multiple to 28x (earlier 25x; 5/10 years average at 29x/28x respectively) and increase our TP to Rs384 (Rs333 earlier). Retain ACCUMULATE.

Full recovery to take ~12-18 months: Sales for Oct month were ~50% of pre-COVID levels. While there has been sequential recovery (corresponding sales figure stood at ~7% and ~25% of pre-COVID levels in 1QFY21 and 2QFY21 respectively) sustainability is difficult to predict given the uncertain environment. Management highlighted that it would take ~12-18 months for sales to claw-back to pre-COVID levels.

GM to be at 52.8% by FY23E: In 1HFY21, GM stood at 40.5% (53.1% in FY20) due to 1) higher discounts and 2) reduction in share of Bangladesh operations. We expect similar trend to prevail in 2HFY21 given higher channel inventory (results in discounting) and gradual recovery in Bangladesh operations (demand environment is sluggish).

Cost reduction program to result in operating leverage benefit: Management is targeting cost savings of ~Rs1.8bn in FY21E (fixed cost has been brought down from Rs400mn per month to Rs240mn per month). We expect EBITDA margin expansion of 280 bps over 3 years due to permanent reset in cost base (operating leverage to play out once sales revert to pre-COVID levels).

Group call highlights: 1) Borrowed money has not been utilized and the BS has net cash of ~Rs300mn 2) Hard Luggage (HL) is growing at a faster pace than Soft Luggage (SL). Presently, HL margins are slightly better. VIP is exploring options to produce HL in Bangladesh 3) CSD contribution is ~20% and the share can rise as going ahead products produced in India only will be sold via the channel (Atmanirbhar campaign) 4) Caprese clocked ~Rs1.4bn in sales during FY20. Backpacks & Handbags contributed ~22% to the top-line in FY20. Contribution can be easily above 25%+ levels in the next 3 years 5) There is an import duty advantage (~16-20%) which lowers the cost of production in Bangladesh 6) On a steady state basis, e-com's contribution in channel mix can be ~20%. 7) Out of 250 EBOs, 100 are shut accounting ~10% of sales. Cost reduction from closure of EBOs is ~Rs200mn 8) Exposure to Big Bazaar is Rs350mn odd and management exuded confidence that recovery will happen soon.

Exhibit 1: Cut in rent & manpower; store closures led to cost rationalization

| Particulars (Rs mn) | 2QFY21 | 2QFY20 | YoY gr. | 1QFY21 | QoQ gr. |
|----------------------------|------------|------------|---------------|------------|--------------|
| Job work charges | 8 | 50 | -84.0% | 3 | 166.7% |
| Electricity, Power & Fuel | 19 | 47 | -59.6% | 12 | 58.3% |
| Rent | 22 | 19 | 15.8% | 9 | 144.4% |
| Repairs | 23 | 27 | -14.8% | 20 | 15.0% |
| Insurance | 9 | 13 | -30.8% | 10 | -10.0% |
| Rates & Taxes | 4 | 11 | -63.6% | 2 | 100.0% |
| Travelling expenses | 6 | 50 | -88.0% | 2 | 200.0% |
| Payment to auditors | 1 | 1 | 0.0% | 1 | 0.0% |
| Professional Fees | 15 | 17 | -11.8% | 10 | 50.0% |
| Communication expenses | 5 | 9 | -44.4% | 4 | 25.0% |
| A&P spends | 41 | 230 | -82.2% | 31 | 32.3% |
| Freight, Handling & Octroi | 81 | 227 | -64.3% | 37 | 118.9% |
| Provisions | 0 | -2 | NM | 86 | -100.0% |
| Human resource procurement | 55 | 150 | -63.3% | 76 | -27.6% |
| Miscellaneous expenses | 32 | 95 | -66.3% | 33 | -3.0% |
| Total | 321 | 944 | -66.0% | 336 | -4.5% |

Source: Company, PL

Exhibit 2: Sales & profitability profile of Bangladesh operations

| Particulars (Rs mn) | 1Q'19 | 2Q'19 | 3Q'19 | 4Q'19 | 1Q'20 | 2Q'20 | 3Q'20* | 4Q'20 | 1Q'21 | 2Q'21 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------------------------------|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales | 252 | 259 | 389 | 392 | 430 | 513 | 657 | 720 | - | 182 | 490 | 570 | 1,292 | 2,320 | 696 | 2,506 | 3,007 |
| PAT | 40 | 27 | 61 | 47 | 40 | 57 | 83 | 160 | (103) | (24) | 83 | 95 | 175 | 340 | 3 | 401 | 481 |
| <i>PAT margin</i> | 15.9% | 10.4% | 15.7% | 12.0% | 9.3% | 11.1% | 12.6% | 22.2% | NM | NM | 16.9% | 16.7% | 13.5% | 14.7% | 0.5% | 16.0% | 16.0% |
| <i>Bangladesh's sales as % of total sales</i> | 4.9% | 6.4% | 9.0% | 9.0% | 7.6% | 12.4% | 15.2% | 23.1% | NM | 17.7% | 3.9% | 4.0% | 7.2% | 13.5% | 10.3% | 15.2% | 15.7% |
| Standalone PAT# | 599 | 310 | 196 | 184 | 860 | 302 | 266 | NM | (417) | (223) | 764 | 1,186 | 1,288 | 887 | | | |
| <i>Standalone PAT margin</i> | 11.6% | 7.7% | 4.5% | 4.2% | 15.2% | 7.3% | 6.1% | NM | NM | NM | 6.1% | 8.4% | 7.2% | 5.2% | | | |

Source: Company, PL # PAT for 1QFY20 is adjusted for exceptional loss of Rs485.0 mn * Figures for 3QFY20 were not shared

Exhibit 3: Gross & EBITDA margin trends are volatile due to fluctuation in currency & raw material prices

| Particulars | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20* | 2QFY20* | 3QFY20* | 4QFY20* | 1QFY21* | 2QFY21* |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
| Gross margin | 45.5% | 48.2% | 51.0% | 54.6% | 50.3% | 50.8% | 47.7% | 47.5% | 50.4% | 53.3% | 53.3% | 57.6% | 42.3% | 38.7% |
| EBITDA margin | 15.3% | 11.8% | 12.2% | 15.0% | 18.6% | 12.7% | 8.8% | 9.1% | 19.2% | 12.1% | 11.7% | 4.7% | NM | NM |

Source: Company, PL *Ind-AS adjusted EBITDA margin

Financials

Income Statement (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|---------------|----------------|---------------|---------------|
| Net Revenues | 17,183 | 6,406 | 15,032 | 18,047 |
| YoY gr. (%) | (3.7) | (62.7) | 134.6 | 20.1 |
| Cost of Goods Sold | 8,059 | 3,783 | 7,396 | 8,518 |
| Gross Profit | 9,124 | 2,623 | 7,637 | 9,529 |
| Margin (%) | 53.1 | 41.0 | 50.8 | 52.8 |
| Employee Cost | 2,105 | 1,364 | 1,849 | 2,166 |
| Other Expenses | 4,106 | 2,103 | 3,232 | 3,790 |
| EBITDA | 2,913 | (844) | 2,556 | 3,573 |
| YoY gr. (%) | 29.6 | NA | NA | 39.8 |
| Margin (%) | 17.0 | NA | 17.0 | 19.8 |
| Depreciation and Amortization | 839 | 798 | 812 | 866 |
| EBIT | 2,074 | (1,642) | 1,744 | 2,707 |
| Margin (%) | 12.1 | NA | 11.6 | 15.0 |
| Net Interest | 230 | 329 | 413 | 298 |
| Other Income | 125 | 296 | 165 | 180 |
| Profit Before Tax | 1,484 | (1,675) | 1,496 | 2,590 |
| Margin (%) | 8.6 | NA | 9.9 | 14.4 |
| Total Tax | 367 | (384) | 377 | 653 |
| Effective tax rate (%) | 24.7 | 22.9 | 25.2 | 25.2 |
| Profit after tax | 1,117 | (1,291) | 1,119 | 1,937 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 1,602 | (1,291) | 1,119 | 1,937 |
| YoY gr. (%) | 10.3 | NA | NA | 73.1 |
| Margin (%) | 9.3 | NA | 7.4 | 10.7 |
| Extra Ord. Income / (Exp) | (485) | - | - | - |
| Reported PAT | 1,117 | (1,291) | 1,119 | 1,937 |
| YoY gr. (%) | (23.1) | NA | NA | 73.1 |
| Margin (%) | 6.5 | (20.1) | 7.4 | 10.7 |
| Other Comprehensive Income | 20 | 2 | - | - |
| Total Comprehensive Income | 1,137 | (1,289) | 1,119 | 1,937 |
| Equity Shares O/s (m) | 141 | 141 | 141 | 141 |
| EPS (Rs) | 11.3 | (9.1) | 7.9 | 13.7 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Non-Current Assets | | | | |
| Gross Block | 4,332 | 4,164 | 4,673 | 5,182 |
| Tangibles | 4,253 | 4,076 | 4,576 | 5,076 |
| Intangibles | 79 | 88 | 97 | 106 |
| Acc: Dep / Amortization | 693 | 1,491 | 2,302 | 3,169 |
| Tangibles | 653 | 1,435 | 2,230 | 3,079 |
| Intangibles | 40 | 56 | 72 | 89 |
| Net fixed assets | 3,640 | 2,673 | 2,371 | 2,013 |
| Tangibles | 3,601 | 2,641 | 2,345 | 1,997 |
| Intangibles | 39 | 32 | 25 | 17 |
| Capital Work In Progress | 28 | 25 | 25 | 25 |
| Goodwill | - | - | - | - |
| Non-Current Investments | 223 | 199 | 233 | 242 |
| Net Deferred tax assets | 67 | 301 | 301 | 301 |
| Other Non-Current Assets | 87 | 83 | 90 | 90 |
| Current Assets | | | | |
| Investments | 404 | 1,096 | 1,096 | 1,096 |
| Inventories | 4,514 | 2,106 | 4,118 | 4,944 |
| Trade receivables | 2,674 | 1,141 | 2,389 | 2,818 |
| Cash & Bank Balance | 108 | 2,053 | 883 | 443 |
| Other Current Assets | 505 | 513 | 601 | 722 |
| Total Assets | 12,447 | 10,312 | 12,249 | 12,810 |
| Equity | | | | |
| Equity Share Capital | 283 | 283 | 283 | 283 |
| Other Equity | 5,819 | 4,530 | 5,225 | 6,738 |
| Total Networkth | 6,101 | 4,813 | 5,507 | 7,021 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | 1,799 | 3,013 | 3,013 | 2,013 |
| Provisions | 125 | 128 | 135 | 144 |
| Other non current liabilities | 1 | 1 | 2 | 2 |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 895 | 849 | 849 | 299 |
| Trade payables | 2,920 | 965 | 2,265 | 2,571 |
| Other current liabilities | 571 | 510 | 440 | 717 |
| Total Equity & Liabilities | 12,447 | 10,312 | 12,249 | 12,810 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|----------------------------------------|----------------|--------------|----------------|----------------|
| PBT | 1,484 | (1,675) | 1,496 | 2,590 |
| Add. Depreciation | 839 | 798 | 812 | 866 |
| Add. Interest | 230 | 329 | 413 | 298 |
| Less Financial Other Income | 125 | 296 | 165 | 180 |
| Add. Other | 233 | - | - | - |
| Op. profit before WC changes | 2,785 | (548) | 2,721 | 3,754 |
| Net Changes-WC | 539 | 1,954 | (2,167) | (778) |
| Direct tax | (404) | 234 | (377) | (653) |
| Net cash from Op. activities | 2,921 | 1,640 | 177 | 2,323 |
| Capital expenditures | (443) | (300) | (500) | (500) |
| Interest / Dividend Income | 2 | - | - | - |
| Others | (410) | (233) | (10) | 9 |
| Net Cash from Invst. activities | (851) | (533) | (510) | (491) |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | (540) | 1,717 | - | (1,550) |
| Dividend paid | (861) | - | (424) | (424) |
| Interest paid | (27) | (329) | (413) | (298) |
| Others | (682) | (548) | - | - |
| Net cash from Fin. activities | (2,109) | 839 | (837) | (2,272) |
| Net change in cash | (40) | 1,946 | (1,170) | (440) |
| Free Cash Flow | 2,468 | 1,340 | (323) | 1,823 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|----------------------------|------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 11.3 | (9.1) | 7.9 | 13.7 |
| CEPS | 17.3 | (3.5) | 13.7 | 19.8 |
| BVPS | 43.2 | 34.1 | 39.0 | 49.7 |
| FCF | 17.5 | 9.5 | (2.3) | 12.9 |
| DPS | 3.2 | - | 3.0 | 3.0 |
| Return Ratio(%) | | | | |
| RoCE | 32.3 | NA | 23.1 | 36.1 |
| ROIC | 23.4 | NA | 20.9 | 27.9 |
| RoE | 18.6 | NA | 20.3 | 27.6 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | 0.4 | 0.1 | 0.3 | 0.1 |
| Net Working Capital (Days) | 91 | 130 | 103 | 105 |
| Valuation(x) | | | | |
| PER | 29.7 | NA | 42.6 | 24.6 |
| P/B | 7.8 | 9.9 | 8.6 | 6.8 |
| P/CEPS | 19.5 | NA | 24.7 | 17.0 |
| EV/EBITDA | 17.1 | NA | 19.4 | 13.5 |
| EV/Sales | 2.9 | 7.5 | 3.3 | 2.7 |
| Dividend Yield (%) | 0.9 | - | 0.9 | 0.9 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Net Revenue | 4,324 | 3,113 | 403 | 1,028 |
| YoY gr. (%) | 0.5 | (28.4) | (92.9) | (75.1) |
| Raw Material Expenses | 2,018 | 1,321 | 233 | 630 |
| Gross Profit | 2,306 | 1,793 | 170 | 398 |
| Margin (%) | 53.3 | 57.6 | 42.3 | 38.7 |
| EBITDA | 680 | 319 | (554) | (221) |
| YoY gr. (%) | 80.3 | (19.4) | NA | NA |
| Margin (%) | 15.7 | 10.2 | NA | NA |
| Depreciation / Depletion | 217 | 218 | 231 | 186 |
| EBIT | 463 | 101 | (785) | (408) |
| Margin (%) | 10.7 | 3.2 | NA | NA |
| Net Interest | 56 | 51 | 65 | 78 |
| Other Income | 18 | 55 | 177 | 51 |
| Profit before Tax | 425 | 105 | (674) | (435) |
| Margin (%) | 9.8 | 3.4 | NA | NA |
| Total Tax | 83 | 9 | (161) | (81) |
| Effective tax rate (%) | 19.5 | 8.9 | 23.8 | 18.6 |
| Profit after Tax | 342 | 95 | (513) | (354) |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 342 | 95 | (513) | (354) |
| YoY gr. (%) | 43.6 | (62.3) | NA | NA |
| Margin (%) | 7.9 | 3.1 | NA | NA |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 342 | 95 | (513) | (354) |
| YoY gr. (%) | 43.6 | (62.3) | NA | NA |
| Margin (%) | 7.9 | 3.1 | NA | NA |
| Other Comprehensive Income | (2) | 20 | 14 | (11) |
| Total Comprehensive Income | 340 | 116 | (500) | (365) |
| Avg. Shares O/s (m) | 141 | 141 | 141 | 141 |
| EPS (Rs) | 2.4 | 0.7 | (3.6) | (2.5) |

Source: Company Data, PL Research

Price Chart
Recommendation History


| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|------------|----------|-------------------|
| 1 | 10-Nov-20 | Accumulate | 333 | 292 |
| 2 | 09-Oct-20 | Hold | 288 | 291 |
| 3 | 06-Aug-20 | Hold | 240 | 262 |
| 4 | 08-Jul-20 | Hold | 255 | 258 |
| 5 | 27-May-20 | Hold | 229 | 215 |
| 6 | 16-Apr-20 | Hold | 334 | 241 |
| 7 | 25-Feb-20 | Hold | 472 | 451 |
| 8 | 12-Feb-20 | Hold | 472 | 486 |
| 9 | 03-Jan-20 | BUY | 501 | 440 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|-------------------------------------------------|------------|---------|------------------|
| 1 | Dish TV India | NR | - | 74 |
| 2 | Entertainment Network (India) | Accumulate | 185 | 146 |
| 3 | Indian Railway Catering and Tourism Corporation | BUY | 1,629 | 1,380 |
| 4 | Inox Leisure | BUY | 322 | 267 |
| 5 | Music Broadcast | Hold | 20 | 21 |
| 6 | Navneet Education | Accumulate | 93 | 79 |
| 7 | PVR | Accumulate | 1,435 | 1,255 |
| 8 | S Chand and Company | BUY | 86 | 65 |
| 9 | V.I.P. Industries | Accumulate | 333 | 292 |

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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