

November 7, 2019

## Q2FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	530		540	
Sales (Rs. m)	19,439	21,970	19,955	23,170
% Chng.	(2.6)	(5.2)		
EBITDA (Rs. m)	3,207	3,669	3,372	3,939
% Chng.	(4.9)	(6.9)		
EPS (Rs.)	12.1	14.9	13.3	16.4
% Chng.	(8.8)	(8.7)		

### Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	17,847	19,439	21,970	25,479
EBITDA (Rs. m)	2,247	3,207	3,669	4,255
Margin (%)	12.6	16.5	16.7	16.7
PAT (Rs. m)	1,453	1,716	2,112	2,573
EPS (Rs.)	10.3	12.1	14.9	18.2
Gr. (%)	14.6	18.1	23.1	21.8
DPS (Rs.)	3.2	4.0	4.5	5.0
Yield (%)	0.7	0.9	1.0	1.1
RoE (%)	25.0	19.2	26.8	26.4
RoCE (%)	31.2	32.9	33.8	34.5
EV/Sales (x)	3.6	3.3	2.9	2.4
EV/EBITDA (x)	28.9	19.8	17.1	14.5
PE (x)	44.2	37.4	30.4	24.9
P/BV (x)	11.0	10.0	8.1	6.6

### Key Data

VIPI.BO | VIP IN

52-W High / Low	Rs.567 / Rs.342
Sensex / Nifty	40,654 / 12,012
Market Cap	Rs.64bn/ \$ 907m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.254.37m

### Shareholding Pattern (%)

Promoter's	53.46
Foreign	7.28
Domestic Institution	10.26
Public & Others	29.00
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	0.4	5.9	0.4
Relative	(7.3)	(0.3)	(13.0)

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## Growth concerns aggravate but margins hold up

### Quick Pointers:

- Volumes increase by 6% YoY.
- Sales from low cost destination Bangladesh increases 98.1% YoY to Rs513mn. PAT margin stood at 11.1%.
- Gross margin increases 250bps YoY to 53.3% amid improved negotiation with Chinese vendors.

**We cut our EPS estimates by 8.8%/8.7% for FY20E/FY21E given aggravating concerns on growth amid slowdown in discretionary spends. All channels except for e-com have struggled but a diversified mix has helped VIP tackle slowdown concerns better. Despite subdued top-line growth, gross margin expanded 250bps YoY to 53.3% amid improved negotiation with Chinese vendors who are saddled with excess capacity after increase in import duty by the US. The gross margin advantage got nullified at the operating level due to 19% YoY increase in employee expenses due to addition of manpower and rise in minimum wages at the subsidiary in Bangladesh. While we do not rule out near term growth headwinds, we believe the structural story of 1) premiumisation (luggage has become more of a fashion statement rather than just a utility product) and 2) increased competitiveness of the organized players post GST implementation remains intact. We thus maintain our positive stance and value the stock at 32x (earlier 33x) Sep21 EPS with a TP of Rs530 (earlier 540). Maintain BUY.**

**Volumes drive growth:** Topline increases 2.6% YoY to Rs4,123mn led by 6% volume growth. Except for e-com, all other channels witnessed the brunt of slowdown.

**Gross margins expand post improved negotiation with vendors:** Gross margins expanded 250bps YoY to 53.3% amid improved vendor negotiations after the US increased import duty on Chinese luggage to 45%. Reduction in PC prices by 30-40% and stable rupee further aided in margin expansion.

**Ind-AS adjusted EBITDA declined 2.6% YoY:** EBITDA increased 29.7% YoY to Rs662mn while margin expanded 340 bps YoY to 16.1%. However, excluding the impact of Ind-AS 116, EBITDA declined 2.6% YoY to Rs498mn with margins declining 60bps YoY to 12.1%. Reported PAT was flat at Rs329mn due to lower tax rate of 19.3%.

**Con-call highlights:** 1) Revenue growth in FY20E is expected to be in high single digit 2) Employee expenses increased 19% YoY due to manpower addition in Bangladesh coupled with rise in minimum wages by 40% odd in last November 3) Ad spends were in the range of 5-7% 4) Despite inventory reduction of Rs1bn since March there is still some high cost inventory on books which will take 6-7 months to liquidate 5) CSD receivables continue to witness stress 6) PC prices are down by 30-40% 7) Current capacity utilization at Bangladesh is 70-75% 8) Demand sentiment is weak and there is no visible traction even after the launch of VIP impossible offer (marketing campaign that provides an assured return flight ticket to any domestic destination in India on shopping worth Rs6,000)

**Exhibit 1: Q2FY20 Result Overview - Consolidated (Rs mn)**

Y/e March	Q2FY20	Q2FY19	YoY gr.	Q1FY20	H1FY20	H1FY19	YoY gr.
<b>Net sales</b>	<b>4,123</b>	<b>4,018</b>	<b>2.6%</b>	<b>5,642</b>	<b>9,765</b>	<b>9,196</b>	<b>6.2%</b>
Total raw material cost	1,926	1,977	-2.6%	2,797	4,723	4,513	4.7%
<i>As a % of sales</i>	<i>46.7%</i>	<i>49.2%</i>		<i>49.6%</i>	<i>48.4%</i>	<i>49.1%</i>	
<b>Gross Profit</b>	<b>2,196</b>	<b>2,041</b>	<b>7.6%</b>	<b>2,845</b>	<b>5,042</b>	<b>4,683</b>	<b>7.7%</b>
<i>Gross margin</i>	<i>53.3%</i>	<i>50.8%</i>		<i>50.4%</i>	<i>51.6%</i>	<i>50.9%</i>	
Employee expenses	583	490	18.9%	540	1,123	925	21.4%
<i>As a % of sales</i>	<i>14.1%</i>	<i>12.2%</i>		<i>9.6%</i>	<i>11.5%</i>	<i>10.1%</i>	
Other expenses	951	1,040	-8.5%	1,054	2,005	2,285	-12.2%
<i>As a % of sales</i>	<i>23.1%</i>	<i>25.9%</i>		<i>18.7%</i>	<i>20.5%</i>	<i>24.8%</i>	
<b>EBITDA</b>	<b>662</b>	<b>511</b>	<b>29.7%</b>	<b>1,251</b>	<b>1,913</b>	<b>1,473</b>	<b>29.9%</b>
<i>EBITDA margin</i>	<i>16.1%</i>	<i>12.7%</i>		<i>22.2%</i>	<i>19.6%</i>	<i>16.0%</i>	
Depreciation	212	39	444.2%	192	404	76	434.1%
<b>EBIT</b>	<b>451</b>	<b>472</b>	<b>-4.5%</b>	<b>1,059</b>	<b>1,509</b>	<b>1,397</b>	<b>8.0%</b>
<i>EBIT margin</i>	<i>10.9%</i>	<i>11.7%</i>		<i>18.8%</i>	<i>15.5%</i>	<i>15.2%</i>	
Interest cost	70	0	NM	53	123	1	NM
Other income	27	20	32.4%	26	53	37	44.1%
<b>PBT</b>	<b>408</b>	<b>492</b>	<b>-17.1%</b>	<b>1,032</b>	<b>1,440</b>	<b>1,433</b>	<b>0.4%</b>
Exceptional items	-	-	NM	485	485	-	NM
Tax expenses	79	164	-52.0%	196	275	472	-41.8%
<i>Tax rate</i>	<i>19.3%</i>	<i>33.3%</i>		<i>35.8%</i>	<i>19.1%</i>	<i>32.9%</i>	
<b>PAT</b>	<b>329</b>	<b>328</b>	<b>0.3%</b>	<b>351</b>	<b>680</b>	<b>962</b>	<b>-29.3%</b>
<i>PAT margin</i>	<i>8.0%</i>	<i>8.2%</i>		<i>6.2%</i>	<i>7.0%</i>	<i>10.5%</i>	
<b>EPS (Rs)</b>	<b>2.3</b>	<b>2.3</b>	<b>0.4%</b>	<b>2.5</b>	<b>4.8</b>	<b>6.8</b>	<b>-29.4%</b>
<b>Adjusted PAT</b>	<b>329</b>	<b>328</b>	<b>0.3%</b>	<b>836</b>	<b>1,165</b>	<b>962</b>	<b>21.2%</b>
<i>Adjusted PAT margin</i>	<i>8.0%</i>	<i>8.2%</i>		<i>14.8%</i>	<i>11.9%</i>	<i>10.5%</i>	
<b>Adjusted EPS (Rs)</b>	<b>2.3</b>	<b>2.3</b>	<b>0.3%</b>	<b>5.9</b>	<b>8.2</b>	<b>6.8</b>	<b>21.1%</b>

Source: Company, PL

**Exhibit 2: Sales & profitability profile of Bangladesh operations**

Particulars (Rs mn)	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	FY17	FY18	FY19	FY20E	FY21E	FY22E
Sales	138	50	184	198	252	259	389	392	430	513	490	570	1,292	1,680	2,183	2,839
PAT	32	1	30	32	40	27	61	47	40	57	83	95	175	235	371	483
<i>PAT margin</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>9.3%</i>	<i>11.1%</i>	<i>16.9%</i>	<i>16.7%</i>	<i>13.5%</i>	<i>14.0%</i>	<i>17.0%</i>	<i>17.0%</i>
<i>Bangladesh's sales as % of total sales</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>7.6%</i>	<i>12.4%</i>	<i>3.9%</i>	<i>4.0%</i>	<i>7.2%</i>	<i>8.6%</i>	<i>9.9%</i>	<i>11.1%</i>
Standalone PAT	378	242	241	324	599	310	199	184	860	302	763.9	1,186	1,288			
<i>Standalone PAT margin</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>15.2%</i>	<i>7.3%</i>	<i>6.1%</i>	<i>8.4%</i>	<i>7.2%</i>			

Source: Company, PL

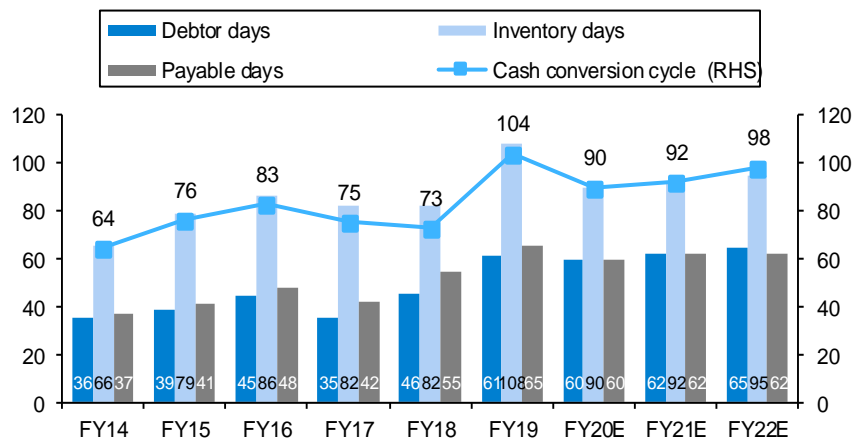
**Exhibit 3: Gross & EBITDA margin trend is volatile due to fluctuation in currency & raw material prices**

Particulars	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20*	2QFY20*
Gross margin	45.5%	48.2%	51.0%	54.6%	50.3%	50.8%	47.7%	47.5%	50.4%	53.3%
EBITDA margin	15.3%	11.8%	12.2%	15.0%	18.6%	12.7%	8.8%	9.1%	19.2%	12.1%

Source: Company, PL

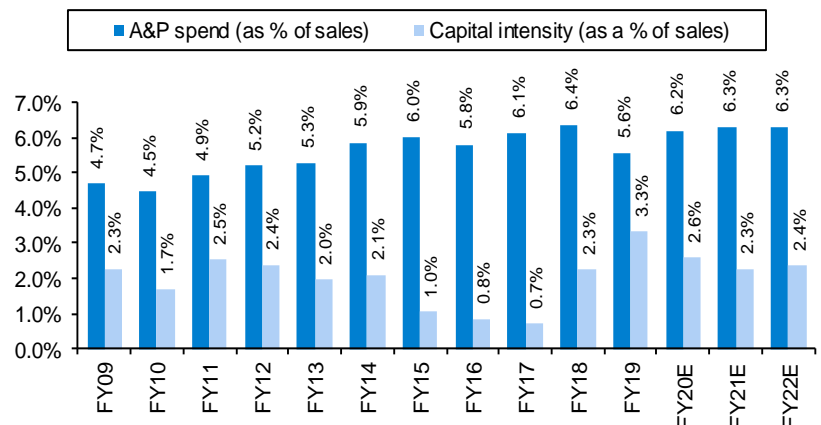
\*Ind-AS adjusted EBITDA margin

**Exhibit 4: VIP's cash conversion cycle to improve by 6 days to 98 days in FY22E**



Source: Company, PL

**Exhibit 5: Absence of manufacturing moat makes branding critical for success**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>17,847</b>	<b>19,439</b>	<b>21,970</b>	<b>25,479</b>
YoY gr. (%)	26.6	8.9	13.0	16.0
Cost of Goods Sold	9,044	9,642	10,853	12,459
Gross Profit	8,803	9,797	11,117	13,020
Margin (%)	49.3	50.4	50.6	51.1
Employee Cost	2,011	2,274	2,395	2,777
Other Expenses	4,545	4,315	5,053	5,988
<b>EBITDA</b>	<b>2,247</b>	<b>3,207</b>	<b>3,669</b>	<b>4,255</b>
YoY gr. (%)	16.2	42.7	14.4	16.0
Margin (%)	12.6	16.5	16.7	16.7
Depreciation and Amortization	166	816	857	892
<b>EBIT</b>	<b>2,081</b>	<b>2,391</b>	<b>2,812</b>	<b>3,363</b>
Margin (%)	11.7	12.3	12.8	13.2
Net Interest	15	204	110	51
Other Income	83	107	121	127
<b>Profit Before Tax</b>	<b>2,149</b>	<b>1,809</b>	<b>2,823</b>	<b>3,440</b>
Margin (%)	12.0	9.3	12.9	13.5
Total Tax	697	578	711	867
Effective tax rate (%)	32.4	32.0	25.2	25.2
<b>Profit after tax</b>	<b>1,453</b>	<b>1,231</b>	<b>2,112</b>	<b>2,573</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,453</b>	<b>1,716</b>	<b>2,112</b>	<b>2,573</b>
YoY gr. (%)	14.6	18.1	23.1	21.8
Margin (%)	8.1	8.8	9.6	10.1
Extra Ord. Income / (Exp)	-	(485)	-	-
<b>Reported PAT</b>	<b>1,453</b>	<b>1,231</b>	<b>2,112</b>	<b>2,573</b>
YoY gr. (%)	14.6	(15.3)	71.6	21.8
Margin (%)	8.1	6.3	9.6	10.1
Other Comprehensive Income	(1)	2	-	-
Total Comprehensive Income	1,452	1,232	2,112	2,573
<b>Equity Shares O/s (m)</b>	<b>141</b>	<b>141</b>	<b>141</b>	<b>141</b>
<b>EPS (Rs)</b>	<b>10.3</b>	<b>12.1</b>	<b>14.9</b>	<b>18.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,635</b>	<b>4,597</b>	<b>5,106</b>	<b>5,715</b>
Tangibles	1,581	4,535	5,035	5,635
Intangibles	55	63	72	81
<b>Acc: Dep / Amortization</b>	<b>468</b>	<b>1,285</b>	<b>2,142</b>	<b>3,033</b>
Tangibles	443	1,243	2,082	2,956
Intangibles	26	42	59	77
<b>Net fixed assets</b>	<b>1,167</b>	<b>3,313</b>	<b>2,965</b>	<b>2,682</b>
Tangibles	1,138	3,292	2,953	2,679
Intangibles	29	20	12	3
Capital Work In Progress	58	47	28	28
Goodwill	-	-	-	-
Non-Current Investments	222	243	296	316
Net Deferred tax assets	49	57	71	79
Other Non-Current Assets	89	97	132	153
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	5,274	4,793	5,538	6,632
Trade receivables	2,986	3,195	3,732	4,537
Cash & Bank Balance	142	1,372	1,910	2,291
Other Current Assets	603	680	769	892
<b>Total Assets</b>	<b>10,711</b>	<b>13,946</b>	<b>15,601</b>	<b>17,789</b>
<b>Equity</b>				
Equity Share Capital	283	283	283	283
Other Equity	5,531	6,132	7,608	9,474
<b>Total Network</b>	<b>5,814</b>	<b>6,414</b>	<b>7,890</b>	<b>9,756</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	119	142	160	186
Other non current liabilities	1	2	2	3
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	862	862	431	-
Trade payables	3,184	3,195	3,732	4,328
Other current liabilities	707	791	843	970
<b>Total Equity &amp; Liabilities</b>	<b>10,711</b>	<b>13,946</b>	<b>15,601</b>	<b>17,789</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	2,149	1,809	2,823	3,440
Add. Depreciation	166	816	857	892
Add. Interest	15	204	110	51
Less Financial Other Income	83	107	121	127
Add. Other	(49)	-	-	-
Op. profit before WC changes	2,281	2,829	3,790	4,382
Net Changes-WC	(2,113)	286	(854)	(1,322)
Direct tax	(727)	(584)	(725)	(875)
<b>Net cash from Op. activities</b>	<b>(559)</b>	<b>2,531</b>	<b>2,211</b>	<b>2,185</b>
Capital expenditures	(591)	(500)	(500)	(600)
Interest / Dividend Income	36	-	-	-
Others	714	(32)	4	(16)
<b>Net Cash from Inv. activities</b>	<b>159</b>	<b>(532)</b>	<b>(496)</b>	<b>(616)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	862	-	(431)	(431)
Dividend paid	(541)	(565)	(636)	(707)
Interest paid	(15)	(204)	(110)	(51)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>306</b>	<b>(769)</b>	<b>(1,177)</b>	<b>(1,188)</b>
<b>Net change in cash</b>	<b>(94)</b>	<b>1,230</b>	<b>538</b>	<b>380</b>
Free Cash Flow	(1,153)	2,031	1,711	1,585

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	10.3	12.1	14.9	18.2
CEPS	11.5	17.9	21.0	24.5
BVPS	41.1	45.4	55.8	69.0
FCF	(8.2)	14.4	12.1	11.2
DPS	3.2	4.0	4.5	5.0
<b>Return Ratio(%)</b>				
RoCE	31.2	32.9	33.8	34.5
ROIC	21.0	23.0	23.5	23.9
RoE	25.0	19.2	26.8	26.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	104	90	92	98
<b>Valuation(x)</b>				
PER	44.2	37.4	30.4	24.9
P/B	11.0	10.0	8.1	6.6
P/CEPS	39.6	25.3	21.6	18.5
EV/EBITDA	28.9	19.8	17.1	14.5
EV/Sales	3.6	3.3	2.9	2.4
Dividend Yield (%)	0.7	0.9	1.0	1.1

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>4,301</b>	<b>4,350</b>	<b>5,642</b>	<b>4,123</b>
YoY gr. (%)	27.2	20.0	9.0	2.6
Raw Material Expenses	2,248	2,283	2,797	1,926
Gross Profit	2,053	2,067	2,845	2,196
Margin (%)	47.7	47.5	50.4	53.3
<b>EBITDA</b>	<b>377</b>	<b>396</b>	<b>1,251</b>	<b>662</b>
YoY gr. (%)	(8.4)	(27.1)	30.0	29.7
Margin (%)	8.8	9.1	22.2	16.1
Depreciation / Depletion	44	47	192	212
<b>EBIT</b>	<b>333</b>	<b>349</b>	<b>1,059</b>	<b>451</b>
Margin (%)	7.7	8.0	18.8	10.9
Net Interest	7	7	53	70
Other Income	28	20	26	27
<b>Profit before Tax</b>	<b>354</b>	<b>362</b>	<b>547</b>	<b>408</b>
Margin (%)	8.2	8.3	9.7	9.9
Total Tax	116	109	196	79
Effective tax rate (%)	32.7	30.1	35.8	19.3
<b>Profit after Tax</b>	<b>238</b>	<b>253</b>	<b>351</b>	<b>329</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>238</b>	<b>253</b>	<b>836</b>	<b>329</b>
YoY gr. (%)	(11.4)	(27.9)	31.9	0.3
Margin (%)	5.5	5.8	14.8	8.0
Extra Ord. Income / (Exp)	-	-	(485)	-
<b>Reported PAT</b>	<b>238</b>	<b>253</b>	<b>351</b>	<b>329</b>
YoY gr. (%)	(11.4)	(27.9)	(44.6)	0.3
Margin (%)	5.5	5.8	6.2	8.0
Other Comprehensive Income	(35)	(21)	(5)	6
<b>Total Comprehensive Income</b>	<b>203</b>	<b>232</b>	<b>346</b>	<b>336</b>
Avg. Shares O/s (m)	141	141	141	141
<b>EPS (Rs)</b>	<b>1.7</b>	<b>1.8</b>	<b>5.9</b>	<b>2.3</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	540	465
2	30-Jul-19	BUY	488	386
3	4-Jul-19	BUY	564	440
4	7-May-19	BUY	564	431
5	5-Apr-19	BUY	579	477
6	25-Mar-19	BUY	579	444

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	447	325
3	Inox Leisure	BUY	416	354
4	Music Broadcast	Hold	48	37
5	Navneet Education	BUY	153	106
6	PVR	Accumulate	2,131	1,835
7	S Chand and Company	Hold	71	63
8	V.I.P. Industries	BUY	540	465
9	Zee Media Corporation	Under Review	-	14

## PL's Recommendation Nomenclature (Absolute Performance)

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

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