

Underperformer VIP Industries

Industry: Luggage and Bags

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Company Update

Valuations reaching its destination, upside capped

VIP Industries (VIP) has delivered a robust performance in 9MFY17 with a disproportionate ~ 21.3 % yoy rise in net profits despite a muted ~ 2.9 % growth in its operational revenues. While the company managed to augment its top-line at a steady ~ 7.7 % in Q3FY17 despite demonetization, the absence of the Haj institutional tender this fiscal that it won in Q2FY16 partly contributed to the flat yoy growth in 9MFY17. But this absence of any low margin institutional orders together with ~ 182 basis points fall in material costs on account of benign crude oil & effective sourcing of soft-sided luggage from its Chinese vendors led to ~ 140 basis points expansion in EBITDA margins. Advertising spends were maintained in the range of 6 - 7 % of company's sales as well, with the company rolling out its new advertising campaign featuring Hrithik Roshan to spur the sales of its flagship *VIP* brand. The ~ 140.7 % growth in other income along with a ~ 79.6 % fall in finance costs further augmented the bottom-line, with PAT & PAT margins standing at ₹ 649.4 mn & 6.7 % in 9MFY17 vis-à-vis ₹ 535.3 mn & 5.7 % in 9MFY16.

Skybags & *Caprese* continue to be the growth drivers of VIP's revenues as its strategy to focus more on small ticket but high turnover items such as bag packs & handbags seems to be paying off. This is substantiated by the fact that the CMD Dilip Piramal stated in a recent interview that currently *Caprese* is almost as big a brand as the 45 year old flagship *VIP* brand. While Carlton continues to grow significantly albeit on a small base, VIP is facing some pressure in the value for money segment with its Alfa & Aristocrat brands losing to competition from Safari & other unorganized players. On the distribution front, modern markets such as hypermarkets & e-tail continue to do well, with the company managing to regain some market share in the CSD segment this fiscal on the back of better product assortment & competitive pricing. Its traditional dealer chain continued to witness a flat trend, especially during Q3FY17 on account of demonetization.

Valuation & Outlook

The company continues to be a classic case of a duopoly between itself & Samsonite with some incremental competition on the value segment coming from Safari. While we expect demonetization to impact the revenues coming from its traditional dealer chain in the short term, the expected rollout of GST this July might disrupt operations at these dealer chains although it's expected to benefit organised players like VIP in the long term.

There are still some issues facing VIP as it is yet to find an optimal solution to turnaround its flagship *VIP* brand that has been facing some cannibalization from its other brands such as *Skybags*. We also believe that further margin expansion on account of lower material & sourcing costs would be difficult as crude oil prices, a key determinant of polypropylene & polycarbonate prices, are not expected to fall significantly from the current levels. Further strengthening of the rupee against the dollar also seems unlikely, limiting the scope of any savings in soft-sided luggage sourcing from Chinese vendors.

VIP has delivered decent returns with the script giving an annualized 64.9 % return since initiating coverage on October 2015. With limited scope of any further margin expansion, continuing legacy issues & a reshuffle in the top management, we believe that the upside in VIP is capped as the script approaches fair valuations. We assign an **UNDERPERFORMER** rating to the stock **with a target price of ₹ 189 at which it will trade at 24XFY19E earnings**.

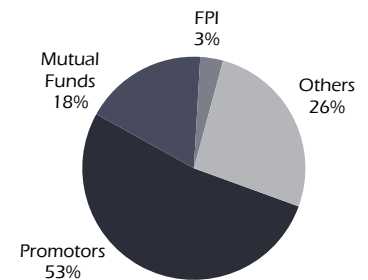
Stock Data

| | |
|--------------------------|----------|
| Current Market Price (₹) | 176 |
| Target Price (₹) | 189 |
| Potential upside (%) | 6.9 |
| Reuters | VIPI.BO |
| Bloomberg | VIP IN |
| Market Cap (₹ bn) | 24.9 |
| 52-Week Range (₹) | 186 / 95 |

What's Changed

| | |
|---------------------------|------------|
| 12 month Price Target (₹) | 125 to 189 |
| FY2017E EPS (₹) | 5.2 to 5.9 |
| FY2018E EPS (₹) | - to 7.0 |
| FY2019E EPS (₹) | - to 7.9 |

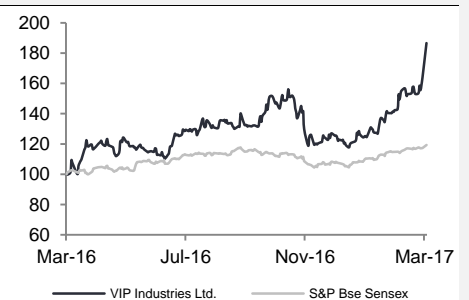
Shareholding Pattern



Fiscal YE

| YE Mar | FY15 | FY16 | FY17E | FY18E | FY19E |
|-----------------|-------|-------|-------|-------|-------|
| Op Rev (₹ bn) | 10.5 | 12.2 | 12.7 | 14.3 | 16.3 |
| EBITDA (₹ mn) | 775 | 1,082 | 1,306 | 1,541 | 1,728 |
| EBITDA Mgn (%) | 7.4% | 8.9% | 10.3% | 10.8% | 10.6% |
| Adj PAT | 423 | 665 | 827 | 984 | 1,113 |
| Adj PAT Mgn (%) | 4.0% | 5.5% | 6.5% | 6.8% | 6.8% |
| EPS | 3.3 | 4.7 | 5.9 | 7.0 | 7.9 |
| P/E | 53.0 | 37.2 | 29.9 | 25.1 | 22.2 |
| EV/EBITDA | 31.9 | 22.8 | 18.9 | 16.0 | 14.3 |
| ROCE | 19.3% | 27.3% | 30.6% | 32.9% | 33.1% |
| ROE | 15.2% | 19.6% | 21.8% | 23.0% | 23.1% |

Relative Price Performance



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Latest TV Commercial for VIP brand signifies continual push to revive the heritage brand's fortunes



Source: Company, LKP Research

Quarterly Financial Highlights (Consolidated)

| Particulars | Q3FY17 | Q2FY17 | qoq % growth | Q3FY16 | yoy % growth | 9MFY17 | 9MFY16 | yoy % growth |
|-------------------------------------|----------------|----------------|---------------|----------------|--------------|----------------|----------------|--------------|
| Net Sales (Excl. Excise Duty) | 3,066.8 | 2,848.8 | 7.7% | 2,904.5 | 5.6% | 9,657.3 | 9,386.0 | 2.9% |
| Other Operating income | 7.1 | 5.7 | 24.6% | 8.5 | -16.5% | 22.7 | 25.8 | -12.0% |
| Total income from operations | 3,073.9 | 2,854.5 | 7.7% | 2,913.0 | 5.5% | 9,680.0 | 9,411.8 | 2.8% |
| Total Material Cost | 1,604.2 | 1,533.1 | 4.6% | 1,630.4 | -1.6% | 5,170.8 | 5,198.9 | -0.5% |
| Employee Benefits | 351.7 | 372.6 | -5.6% | 326.0 | 7.9% | 1,057.8 | 946.9 | 11.7% |
| Other Expenses | 858.1 | 686.2 | 25.1% | 773.3 | 11.0% | 2,429.8 | 2,404.8 | 1.0% |
| Total Expenses | 2,814.0 | 2,591.9 | 8.6% | 2,729.7 | 3.1% | 8,658.4 | 8,550.6 | 1.3% |
| EBITDA | 259.9 | 262.6 | -1.0% | 183.3 | 41.8% | 1,021.6 | 861.2 | 18.6% |
| <i>EBITDA margins</i> | <i>8.5%</i> | <i>9.2%</i> | | <i>6.3%</i> | | <i>10.6%</i> | <i>9.2%</i> | |
| Depreciation & Amortisation | 33.0 | 32.5 | 1.5% | 36.8 | -10.3% | 103.6 | 108.2 | -4.3% |
| EBIT | 226.9 | 230.1 | -1.4% | 146.5 | 54.9% | 918.0 | 753.0 | 21.9% |
| <i>EBIT margins</i> | <i>7.4%</i> | <i>8.1%</i> | | <i>5.0%</i> | | <i>9.5%</i> | <i>8.0%</i> | |
| Finance Costs | 0.8 | 0.6 | 33.3% | 1.5 | -46.7% | 2.2 | 10.8 | -79.6% |
| Other Income | 4.8 | 29.1 | -83.5% | 7.9 | -39.2% | 40.2 | 16.7 | 140.7% |
| PBT | 230.9 | 258.6 | -10.7% | 152.9 | 51.0% | 956.0 | 758.9 | 26.0% |
| <i>PBT Margins</i> | <i>7.5%</i> | <i>9.0%</i> | | <i>5.2%</i> | | <i>9.8%</i> | <i>8.0%</i> | |
| Tax | 75.6 | 75.7 | -0.1% | 48.7 | 55.2% | 306.6 | 223.6 | 37.1% |
| PAT | 155.3 | 182.9 | -15.1% | 104.2 | 49.0% | 649.4 | 535.3 | 21.3% |
| <i>PAT Margins</i> | <i>5.0%</i> | <i>6.3%</i> | | <i>3.6%</i> | | <i>6.7%</i> | <i>5.7%</i> | |
| EPS | 1.10 | 1.29 | -15.1% | 0.74 | 49.0% | 4.60 | 3.79 | 21.3% |

Financials (Consolidated)
Income statement

| YE Mar (₹ Mn) | FY15 | FY16 | FY17E | FY18E | FY19E |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Operational Revenues | 10,477 | 12,165 | 12,729 | 14,333 | 16,339 |
| Raw Materials Cost | 5,727 | 6,627 | 6,856 | 7,577 | 8,607 |
| Freight & Fwding Chgs | 563 | 637 | 636 | 731 | 846 |
| Discount & Rebates | 303 | 269 | 269 | 309 | 357 |
| Advertising & Marketing | 630 | 707 | 764 | 932 | 1,144 |
| Employee Benefits | 1,097 | 1,259 | 1,372 | 1,545 | 1,756 |
| Others | 1,382 | 1,584 | 1,526 | 1,698 | 1,901 |
| EBITDA | 775 | 1,082 | 1,306 | 1,541 | 1,728 |
| EBITDA Margin (%) | 7.4% | 8.9% | 10.3% | 10.8% | 10.6% |
| Depreciation | 175 | 142 | 128 | 117 | 115 |
| EBIT | 600 | 940 | 1,179 | 1,425 | 1,613 |
| EBIT Margin (%) | 5.7% | 7.7% | 9.2% | 9.9% | 9.8% |
| Other Income | 25 | 23 | 51 | 56 | 61 |
| Finance Cost | 13 | 12 | 4 | 3 | 3 |
| PBT | 612 | 952 | 1,226 | 1,478 | 1,672 |
| PBT Margin (%) | 5.8% | 7.8% | 9.6% | 10.3% | 10.2% |
| Exceptional Items | 43 | - | - | - | - |
| Tax | 189 | 287 | 398 | 494 | 558 |
| Adj PAT | 423 | 665 | 827 | 984 | 1,113 |
| Adj PAT Margin (%) | 4.0% | 5.5% | 6.5% | 6.8% | 6.8% |

Key Ratios

| YE Mar | FY15 | FY16 | FY17E | FY18E | FY19E |
|---------------------------------|--------|-------|-------|-------|-------|
| Per Share Data (Rs) | | | | | |
| EPS | 3.3 | 4.7 | 5.9 | 7.0 | 7.9 |
| CEPS | 4.5 | 5.7 | 6.8 | 7.8 | 8.7 |
| BVPS | 22.0 | 24.4 | 27.3 | 30.7 | 34.5 |
| DPS | 1.5 | 2.0 | 2.5 | 3.0 | 3.3 |
| Growth Ratios(%) | | | | | |
| Operational Revenues | 7.7% | 16.1% | 4.6% | 12.6% | 14.0% |
| EBITDA | -3.4% | 39.6% | 20.7% | 18.0% | 12.1% |
| PAT | -19.1% | 42.6% | 24.4% | 18.9% | 13.1% |
| Valuation Ratios (X) | | | | | |
| P/E | 53.0 | 37.2 | 29.9 | 25.1 | 22.2 |
| P/CEPS | 38.5 | 30.6 | 25.9 | 22.5 | 20.1 |
| P/BV | 8.0 | 7.2 | 6.4 | 5.7 | 5.1 |
| EV/Sales | 2.4 | 2.0 | 1.9 | 1.7 | 1.5 |
| EV/EBITDA | 31.9 | 22.8 | 18.9 | 16.0 | 14.3 |
| FCF/EBITDA | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 |
| Profitability Ratios (%) | | | | | |
| ROCE | 19.3% | 27.3% | 30.6% | 32.9% | 33.1% |
| ROE | 15.2% | 19.6% | 21.8% | 23.0% | 23.1% |
| Dividend payout | 45.5% | 42.5% | 42.5% | 42.5% | 42.5% |
| Dividend Yield | 0.9% | 1.1% | 1.4% | 1.7% | 1.9% |

Source: Company, LKP Research

Balance sheet

| YE Mar (₹ Mn) | FY15 | FY16 | FY17E | FY18E | FY19E |
|---|--------------|--------------|--------------|--------------|--------------|
| Equity Share Capital | 283 | 283 | 283 | 283 | 283 |
| Reserves and Surplus | 2,776 | 3,112 | 3,516 | 3,997 | 4,540 |
| Total Net Worth | 3,059 | 3,395 | 3,799 | 4,279 | 4,823 |
| Total Debt | - | - | - | - | - |
| Other Non. Curr Liab. & Provns | 45 | 54 | 53 | 54 | 56 |
| SOURCES OF FUNDS | 3,104 | 3,449 | 3,852 | 4,333 | 4,879 |
| Fixed Asset | 724 | 676 | 595 | 576 | 585 |
| Investments | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Others | 287 | 248 | 248 | 289 | 314 |
| Current Assets | | | | | |
| Cash and Bank | 76 | 82 | 238 | 190 | 177 |
| Inventories | 2,269 | 2,874 | 2,750 | 3,138 | 3,556 |
| Sundry Debtors | 1,111 | 1,493 | 1,569 | 1,767 | 2,014 |
| Current Investments | - | - | 100 | 200 | 300 |
| Loans & Advances | 242 | 234 | 244 | 263 | 275 |
| Others | 256 | 220 | 227 | 247 | 265 |
| Current Liabilities and Provisions | | | | | |
| Short Term Borrowings | 310 | 142 | 14 | - | - |
| Trade Payables | 1,190 | 1,743 | 1,409 | 1,557 | 1,769 |
| Other Curr. Liab. & Provns | 391 | 535 | 737 | 820 | 878 |
| Net Current Assets | 2,062 | 2,483 | 2,968 | 3,428 | 3,939 |
| Deferred Tax Assets | 31 | 41 | 41 | 41 | 41 |
| APPLICATION OF FUNDS | 3,104 | 3,449 | 3,852 | 4,333 | 4,879 |

Cash Flow Statement

| YE Mar (₹ Mn) | FY15 | FY16E | FY17E | FY18E | FY19E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| PBT | 612 | 952 | 1,226 | 1,478 | 1,672 |
| Exceptional Items | 43 | - | - | - | - |
| Depreciation | 175 | 142 | 128 | 116 | 115 |
| Finance Cost | 13 | 12 | 4 | 3 | 3 |
| Other income | (25) | (23) | (51) | (56) | (61) |
| Change in Working Capital | (348) | (415) | (229) | (407) | (425) |
| Other Operating Activities | (8) | 37 | (1) | (39) | (24) |
| Less: Tax | (189) | (287) | (398) | (494) | (558) |
| CF from Operations (a) | 274 | 418 | 678 | 601 | 721 |
| Capital Expenditure | (43) | (94) | (46) | (98) | (124) |
| Change in /Investments | - | - | (100) | (100) | (100) |
| Other income | 25 | 23 | 51 | 56 | 61 |
| CF from Investing (b) | (18) | (71) | (95) | (142) | (162) |
| Free Cash Flow (a+b) | 256 | 346 | 583 | 459 | 559 |
| Dividend paid | (212) | (283) | (352) | (418) | (473) |
| DDT paid | (43) | (58) | (72) | (85) | (96) |
| Finance Cost | (13) | (12) | (4) | (3) | (3) |
| Other Reserve Adjustments | (24) | 11 | - | - | - |
| CF from Financing (c) | (291) | (341) | (427) | (506) | (572) |
| Inc/ (Dec) in Cash & CE | (35) | 6 | 156 | (48) | (13) |
| Closing Cash and CE | 76 | 82 | 237 | 190 | 177 |

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