

VIP Industries

BUY

Bag it for a smooth ride

Summary

We initiate coverage on VIP Industries (VIP) with a BUY rating and a target price of Rs574 based on PER of 32x FY22E. VIP is a proxy play on rising spends towards travel and tourism in India. It is a leader in an industry dominated by unbranded players. Further, it has established brands, strong distribution network, skilled management and strong product portfolio. We expect its sales/EBITDA/net profits are to grow at CAGR of 11%/25%/20% over FY19-22E, respectively. We believe that the premium valuation (PER of 24.4x FY22) is justified given significant growth prospects (60% market unorganized), strong balance sheet, high return ratios (FY17-19 average ROE of 26%) and leadership position.

Key Highlights and Investment Rationale

- Leader in an industry with high tailwinds:** VIP is world's second largest and India's largest luggage company (46% market share). Large size, established brands, strong distribution network and large number of SKUs make it stand out vis-a-vis competitors. Increasing business and leisure travels, rising disposable income, growing e-com and organized retailing are driving higher demand for branded luggage. VIP remains well-poised to benefit from these trends. We expect VIP's sales to grow at CAGR of 11% over FY19-22E.
- Backward integration to improve margins:** VIP has set up manufacturing units in Bangladesh (low wage costs), given rising wage inflation in China. Currently, VIP depends on Chinese imports for its requirement of soft luggage (65-70% of raw materials). Further, imports from China attract 15% import duty while there is no duty on imports from Bangladesh. Although current contribution from Bangladesh is insignificant; however, VIP aims to gradually increase supplies from Bangladesh which will be margin accretive. Sourcing from Bangladesh is likely to improve VIP's EBITDA by 50-100 bps over FY19-22E.
- Outlook and valuation:** Over FY14-19, VIP's sales/EBITDA/net profits have grown at a CAGR of 13%/23%/20%, respectively. Looking ahead, we forecast its EBITDA/net profits are to grow at CAGR 25%/20% over FY19-22E, respectively. VIP's stock is trading at valuation of 24.3x FY22E P/E indicating its brand value and strong growth prospects (large opportunity size). We value the stock at PER of 32x FY22E (in-line with last 3-years' average one-year forward multiple) to derive a target price of Rs574.

Initiating Coverage

TP Rs574
CMP Rs437

Potential upside / downside +31%

V/s Consensus

EPS (Rs)	FY20E	FY21E	FY22E
IDBI Capital	12.2	14.4	17.9
Consensus	12.9	15.8	19.2
% difference	(5.2)	(9.1)	(6.8)

Shareholding Pattern (%)

Promoters	53.5
FII	7.3
DII	7.9
Public	31.3

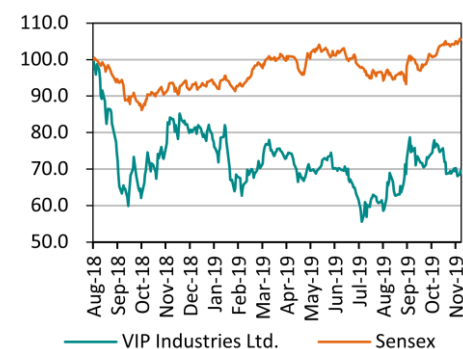
Price Performance (%)

	-1m	-3m	-12m
Absolute	(9.2)	11.3	(10.5)
Rel to Sensex	(14.2)	1.8	(26.5)

Key Stock Data

Bloomberg / Reuters	VIP IN /VIPI.BO
Sector	Other Apparels & Accessories
Shares o/s (mn)	141
Market cap. (Rs mn)	61,685
Market cap. (US\$ mn)	891
3-m daily average value (Rs mn)	195.7
52-week high / low	Rs546 / 342
Nifty / Sensex	41,021 / 12,101

Relative to Sensex (%)



Financial snapshot

Year	FY18	FY19	FY20E	FY21E	FY22E
Revenue	14,096	17,847	19,385	21,631	24,300
EBITDA	1,934	2,247	3,295	3,721	4,423
EBITDA (%)	13.7	12.6	17.0	17.2	18.2
Adj. PAT	1,251	1,452	1,730	2,031	2,536
EPS (Rs)	8.9	10.3	12.2	14.4	17.9
EPS Growth (%)	50.7	16.0	19.1	17.4	24.9
PE (x)	49.3	42.5	35.7	30.4	24.3
Dividend Yield (%)	0.6	0.7	0.9	1.4	1.7
EV/EBITDA (x)	31.8	27.8	18.7	16.2	13.3
RoE (%)	27.9	27.1	28.1	28.7	30.2
RoCE (%)	40.2	35.9	37.4	40.2	41.5

Source: Company; IDBI Capital Research

Industry overview

■ Luggage industry overview

Luggage can be classified into soft and hard luggage. Soft luggage is preferred over hard luggage as soft luggage is light weight, offers flexibility and convenience. The luggage industry can also be classified into three categories – travel, business and casual. In India, soft luggage has dominant share of 75% while in developed world hard and soft luggage have an equal share.

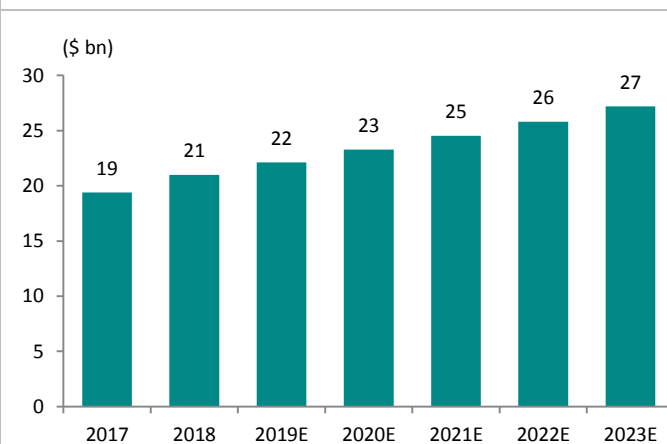
Exhibit 1: Luggage industry classification

Category	Products	Description
Travel bags	Trolley bags, suitcases, duffel bags, rolling totes	It is the fastest growing in the industry. The category share in global luggage industry is over 40%.
Business bags	Briefcase, computer bags	These are designed to carry laptops, files, etc. The category share in global luggage industry is ~40%.
Casual bags	Backpacks, shoulder bags, wheeled duffle bags	These are used for daily use and leisure travel. The category share in global luggage industry is over 15-20%.

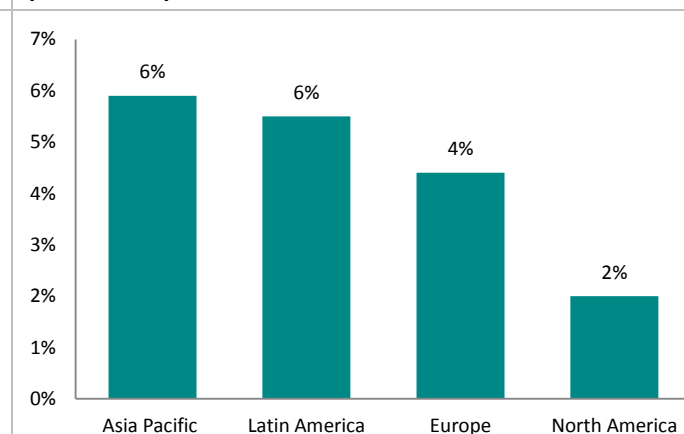
Source: Industry, IDBI Capital Research

China and India are fastest growing luggage markets in the world

Global luggage industry is pegged at \$21 bn as of CY2018 and is expected to grow at a CAGR of 6% over 2018-2023. Samsonite International is the largest luggage company with presence across the globe. The two fastest growing luggage markets in the world are China and India. Asia Pacific and Latin American luggage market is expected to grow at CAGR of 6% over 2018-23. The main drivers of this growth are increasing spends on leisure by millennial and rising income.

Exhibit 2: Global luggage market value forecast worldwide


Source: Industry, Statista, IDBI Capital Research

Exhibit 3: Region-wise growth rate of luggage (2018-2023)


Source: Industry, Statista, IDBI Capital Research

Indian luggage industry overview

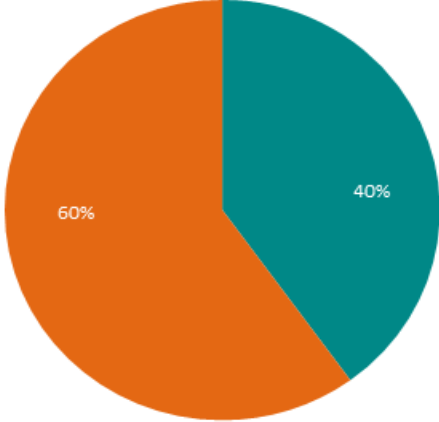
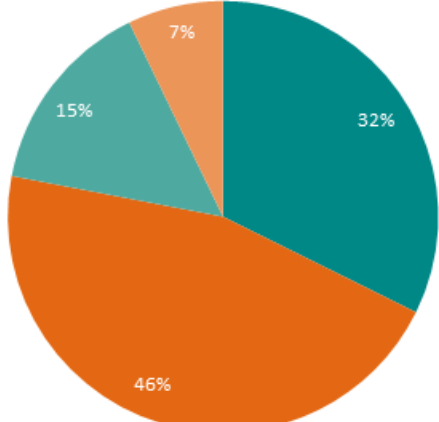
The Indian luggage industry is pegged at Rs80-85 bn (excluding backpacks and handbags); organized industry has grown at CAGR of 13% over FY14-19. Approximately 60% of the industry is unorganized, whereas organized players make the rest 40% of the market. The organized industry is dominated by VIP, Samsonite and Safari Industries. Furthermore, there are several new entrants such as Wildcraft, Da Milano, and Baggit, who are gaining traction.

The growth in India's luggage industry is driven by marriages and travelling – both these are seasonal in nature. Q1 (summer vacations and marriage season in northern part of the country such as UP, Bihar) and Q3 (festive season) are seasonally good quarters. The company spends towards promotional expenditure are also much higher in these quarters.

Q1 and Q3 are seasonally good quarters for luggage companies

■ Organized luggage industry oligopolistic

VIP, Samsonite and Safari constitute ~90% of the organized industry pie. The fourth largest player is High Spirit Commercial Ventures (mainly present in backpacks). These four constitute nearly 40% of the luggage industry while the rest of the industry is unorganized. However, it is noteworthy that share of unbranded players in volume terms is ~80%, indicating huge scope for penetration for branded players.

Exhibit 4: Luggage industry largely remains unorganized (FY19)	Exhibit 5: Organized players market share (FY19)
 <p>A pie chart illustrating the market structure of the luggage industry in FY19. The chart is divided into two segments: 'Organised' (40%) and 'Unorganised' (60%). The legend below the chart identifies the teal segment as 'Organised' and the orange segment as 'Unorganised'.</p>	 <p>A pie chart showing the market share of organized players in the luggage industry for FY19. The chart is divided into four segments: Samsonite (32%), VIP (46%), Safari (15%), and Others (7%). The legend below the chart identifies the segments: Samsonite (teal), VIP (orange), Safari (light teal), and Others (light orange).</p>
<p>Source: Industry data; IDBI Capital Research</p>	<p>Source: Ace Equity, Companies, IDBI Capital Research</p>

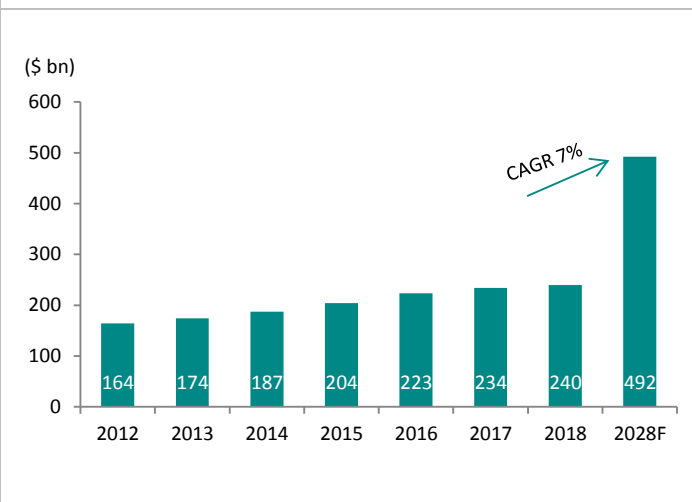
Backpacks and handbags market sizes are estimated at Rs36 bn and Rs80 bn, respectively. The share of unorganized players is higher in backpacks (60-65%) and handbags (80-85%), compared to luggage. Both these categories are growing at much faster rate than luggage. Typically, for entry level backpacks and handbags segment, the pricing difference between unorganized and organized players is 15-30%.

■ **Growth rates in luggage is closely linked to trends in travel and tourism**

Luggage industry growth rates can be pegged to growth in travel and tourism. The domestic tourism industry accounts for 9.4% of the GDP and is the 3rd largest foreign exchange earner for the country. As per IBEF report, direct contribution of domestic tourism industry is expected to grow at a CAGR of 7% over CY17-28E to reach at \$195 bn. This is also likely to be drive growth in luggage industry.

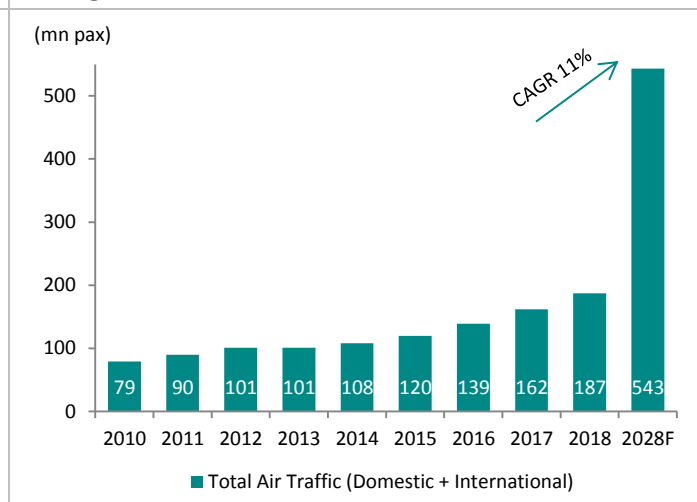
As per Directorate General of Civil Aviation, Indian domestic air travel has grown at a CAGR of 13% over 2013-18 to 187 mn. In FY19, the domestic air travel grew by 18.6% - fastest across the globe. The growth in air travel would propel new luggage demand, especially from the first time travelers, and mainly benefit the organized players in the Industry.

Exhibit 6: Expenditure on Travel & Tourism to grow at a CAGR of 7% over 2018-2028



Source: IBEF, Industry, IDBI Capital Research

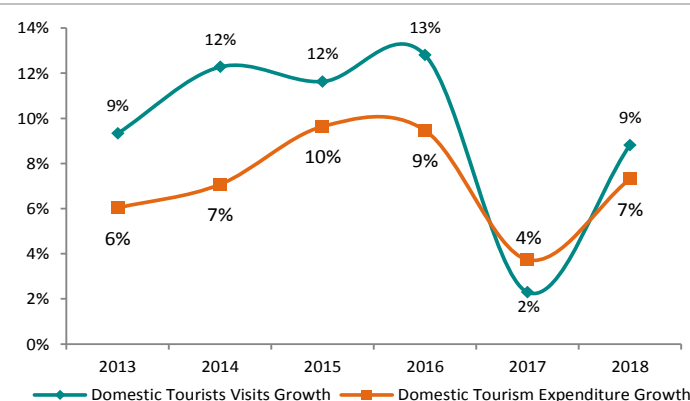
Exhibit 7: India's air passenger traffic growth to remain strong



Source: FICCI, Industry, IDBI Capital Research

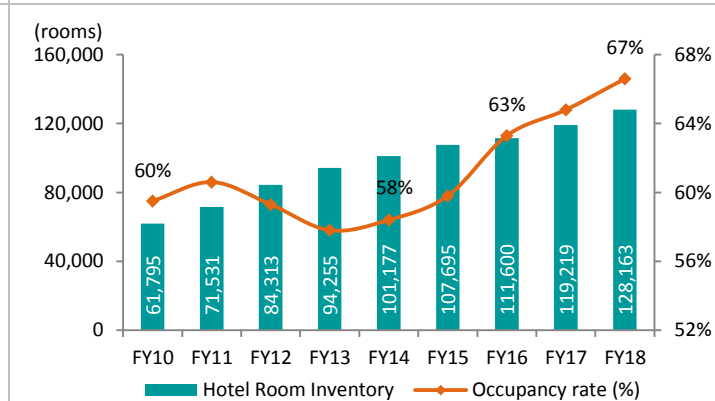
Travel visits by domestic tourists and spends towards tourism have grown at a healthy rate since 2013. The rising occupancy rate in Indian hotels also indicate rise in number of travellers and intensity of travel. Over 2014-18, the occupancy rate has risen to 67%. All these factors have also driven luggage demand.

Exhibit 8: Growth in domestic travel has been healthy barring 2017



Source: State Tourism Dept. Research, IBEF, IDBI Capital Research

Exhibit 9: Occupancy rate has risen steadily in domestic hotels over the years

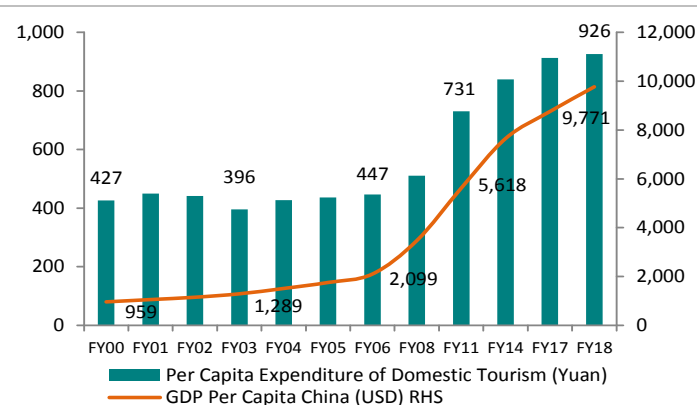


Source: Hotelivate, IDBI Capital Research

India's tourism industry is at an inflection point

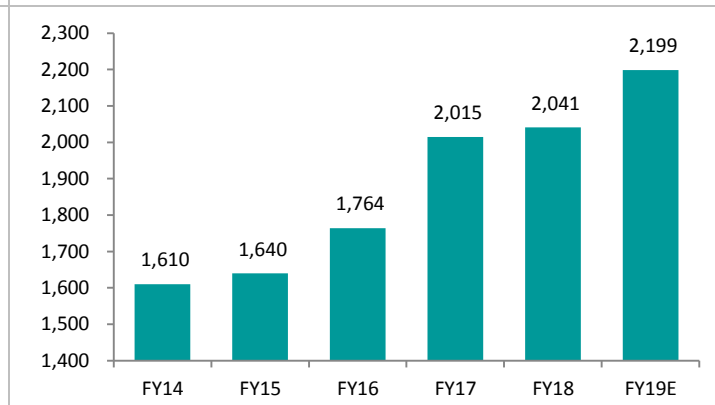
It is noteworthy that China's spending on travel and tourism jumped sharply after its per capita income crossed \$2,000 in 2006. India's GDP has crossed \$2,000 in 2017. Hence, we believe India's tourism industry is at an inflection point – the spends towards travel and tourism are likely to grow at a faster pace in the coming decade compared to previous decade.

Exhibit 10: China's spend on tourism rose sharply after it crossed per capita of \$2000 in 2006



Source: Bloomberg, Media articles, IDBI Capital Research

Exhibit 11: India's GDP per capita crossed \$2,000 in 2018



Source: IBEF, IMF, IDBI Capital Research

■ **Several tailwinds for organized luggage players**

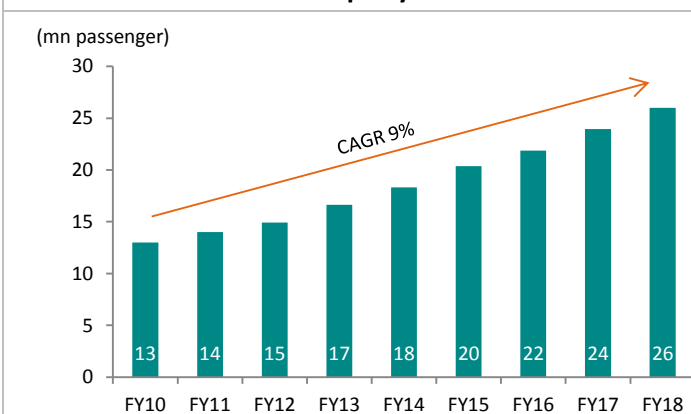
With increase in per capita income, upgradation from unbranded to branded products is imminent. Moreover, organized players have been proactive as they continue to introduce newer products, offer lifetime guarantees, offer better after-sales services. Consumers are increasingly shopping in malls, hypermarkets, e-com where branded players have high presence. Also, it is noteworthy that the rate at which bags are replaced by consumers has dropped to 2-3 years now from 4-5 years earlier. This represents an interesting proposition for the organized domestic players to ramp up their presence by tapping into the emerging trends.

Exhibit 12: Factors driving higher sales of organized players

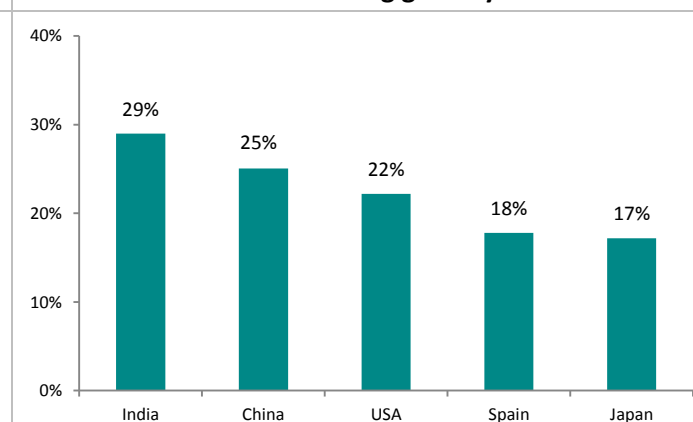
Quality	With rising purchasing power, consumers increasingly prefer high quality products. A breakdown in luggage parts during a travel can be a big spoilsport to a journey – a compelling reason to purchase a branded luggage.
Modern retailing	Modern day consumer prefers shopping through hyper markets, malls, EBOs, MBOs. The branded players have a strong presence at these locations.
E-com	Sales through e-com are growing at a faster rate than other channels. The branded players have used this channel to push their volumes, although the margins in e-com are lowest.
Product innovation	Branded players have launched several variants, especially in the polycarbonate segment (vibrant colors and new designs appealing to female and children).
Warranties	Organized players have increased innovations and continue to launch new variants. They offer lifetime warranties on several products.
After sales service	The after-sales service of organized players cannot be matched by unbranded players.

Source: Channel checks; IDBI Capital Research

At 29%, India has one of the highest proportions of millennial population compared to other economies. According to 'The Millennial Travel Survey 2017', 62% of millennials vacation two to five times a year. Further, 10% travel six to ten times a year, including domestic and international travel. At ~400 mn, they collectively have a ~\$300 bn spending power. We believe aspirational millennial population would drive demand for branded luggage – this bodes well for the branded luggage players.

Exhibit 13: International trips by Indians


Source: Bureau of Immigration, Govt. of India, IDBI Capital Research

Exhibit 14: Millennial standing globally


Source: FT, UN Report, IDBI Capital Research

After implementation of GST, organized luggage sales exhibited strong growth

Prior to GST, the Indian luggage industry was dominated by unorganized players. Nevertheless, implementation of GST has reduced pricing gap between organized and unorganized players making organized players more competitive. The implementation of GST has boosted organized sales for three major players by ~20%, YoY to almost ~Rs35 bn in FY19. The impact of GST is more prominent in the mass/economy segment where Safari Industries has a major presence.

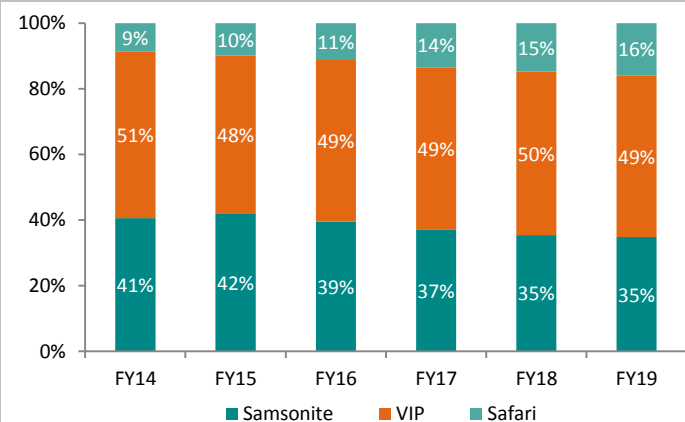
Investment thesis

■ VIP – an industry leader with proven track record

VIP is world’s second largest (after Samsonite) and Asia’s largest luggage company. The company started manufacturing suitcases in the 1970s, and currently has diverse products such as polycarbonate strolleys, nylon-based strolleys, printed luggage, handbags, backpacks, and travel accessories. Over the years, VIP has reached scale and size which enables it to 1) source raw materials cost-effectively, 2) spend aggressively on branding and 3) launch new products on the back of its distribution strength and brand image.

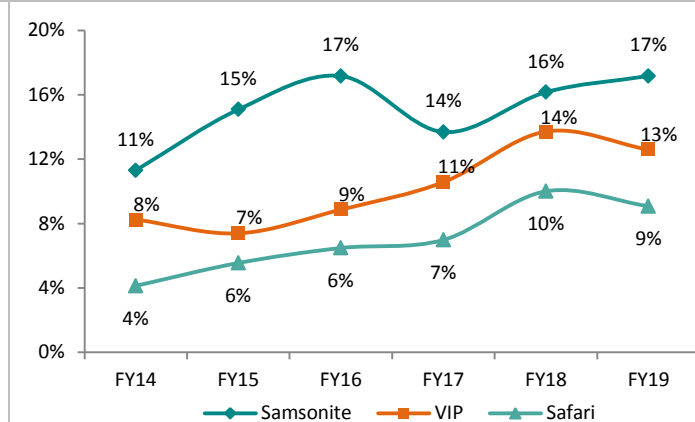
With a market share of 46%, VIP is the leader in organized luggage segment in India. While Safari has been able to gain market share from Samsonite due to its presence in fast growing mass segment, VIP has been able to maintain its market share in the last five years. Samsonite still remains the second largest player with a market share of 35%. Safari’s margins are lower compared to VIP and Samsonite. Also, its return ratios are inferior compared to the other two.

Exhibit 15: Revenue-wise market share amongst three large organized players (excluding others)



Source: Companies, IDBI Research; Note: Top three players formed 90-95% of organized market over FY14-19

Exhibit 16: EBITDA margin of VIP, Safari and Samsonite

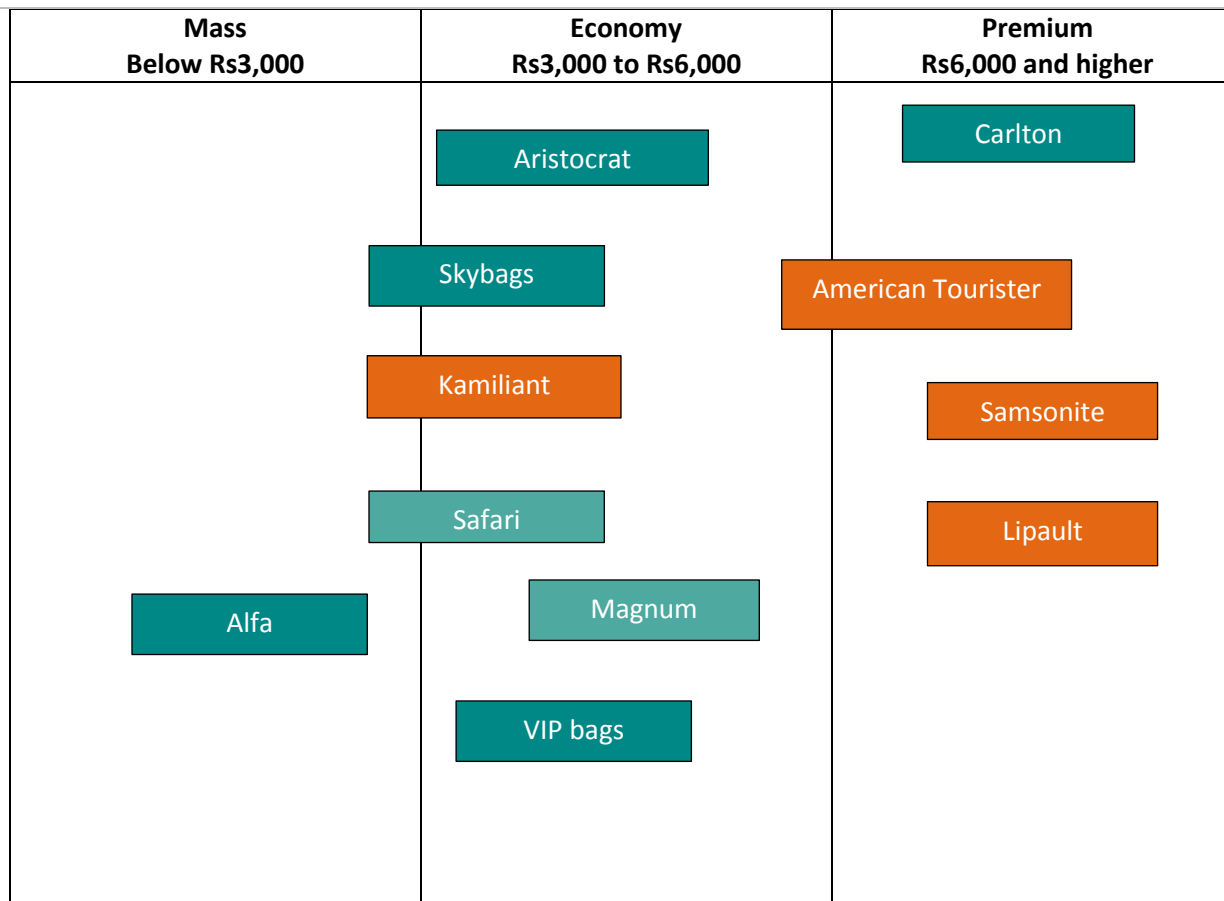


Source: Companies, IDBI Research

VIP has presence across categories

VIP has a well-diversified product portfolio compared to its peers, Samsonite and Safari. Samsonite has a large presence in premium categories while Safari mainly caters to economy segment. VIP has presence across all three categories-mass, economy and premium. VIP’s SKUs at ~1,500 are much higher compared to its peers due to its presence in handbags.

Exhibit 17: VIP has presence across price points (excluding backpacks and handbags)



■ VIP Industries
 ■ Safari Industries
 ■ Samsonite

Source: Channel checks, Companies, IDBI Capital Research

VIP's strategic initiatives have laid the foundation for strong growth in the coming years

In the past decade, VIP has undergone several changes. In 2010, Radhika Piramal took over as Managing Director and initiated strategic steps which have worked well for the company. Under her leadership, the company: 1) revamped briefcase and suitcase brands, 2) re-launched soft luggage brand, Skybags in 2011, and 3) launched handbags (Caprese) in FY13, and 4) set up soft luggage plants in Bangladesh to reduce dependency on China. Most of these initiatives have worked well for the company.

Exhibit 18: Strategic initiatives of VIP have yielded strong results in the past decade

Initiative	Comments
Revamped older brands (Alfa and VIP)	VIP is one of the oldest brands. The company has tried to revamp the brand several times in the past decade. Recently, it has been launched with a new logo and 'Hello Holidays' campaign. It seeks to align the brand's core values with the modern Indian family. The brand has roped in Bollywood couple Saif Ali Khan and Kareena Kapoor as brand ambassadors.
Re-launched Skybags in 2011	Skybags has enabled VIP to gain market share in backpack category. Within Skybags, backpacks have seen a strong growth rate of 25-30% during FY14-19.
Launched Caprese in 2013	Caprese is one of the most popular brands amongst female youth in India. It has grown at a CAGR of 30-35% since its launch in 2013 and has crossed sales of Rs1 bn in FY18.
Set up soft luggage plants in Bangladesh in 2017	As Bangladesh operations ramp-up production, VIP's dependency from Chinese vendors will come down. It will also improve VIP's profitability due to labour cost arbitrage and import duty savings.

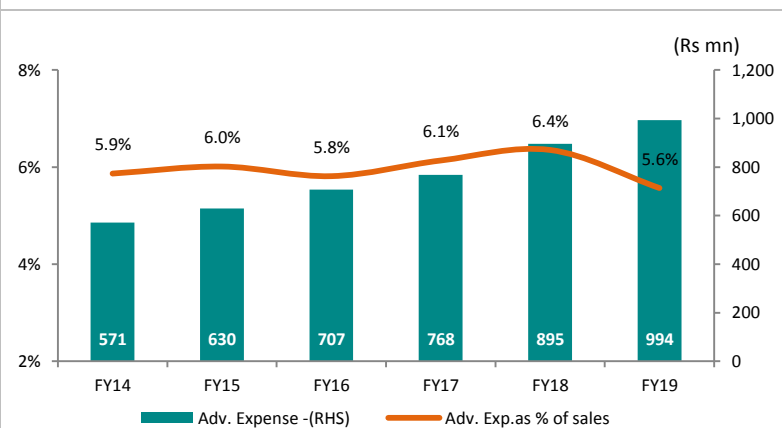
Source: Company, IDBI Capital Research

■ **Strong distribution network with advertising results in brand visibility**

VIP has a wide distribution network comprising of canteen store department (CSD), modern trade, EBOs, MBOs, e-com. VIP has over 11,000 point of sales. It has 100 active distributors and over 1,000 active dealers, 250 EBOs and ~250 franchises. As VIP has a wider distribution network compared to its peers, VIP's share of e-com sales is lower compared to Safari and Samsonite. Nevertheless, e-com is a highly discounted channel and hence, it is beneficial to sell products through other channels, especially EBOs (highest margins).

VIP spends ~6% of sales on branding. It has roped in celebrities including Varun Dhawan, Alia Bhatt, Hrithik Roshan, Rohit Sharma, etc. to promote its brands. Compared to VIP and Samsonite, Safari has lower advertising spends due to smaller revenue base and lower margins.

Samsonite and Safari do not have vast dealer network like VIP

Exhibit 19: Advertising expenditure averages ~6% of sales for VIP


Source: Company, IDBI Capital Research

Exhibit 20: VIP endorses different celebrities to promote different brands

Brand	Brand ambassador
Skybag	Varun Dhawan
Caprese	Alia Bhatt
Carlton	Vijender Singh
VIP Bags	Hrithik Roshan, Saif Ali Khan & Kareena Kapoor
Aristocrat	Rohit Sharma and R. Ashwin

Source: Company, IDBI Capital Research

■ Backpacks and handbags exhibiting stellar growth

VIP successfully re-launched Skybags in 2011, a mid-segment brand of backpacks and duffle bags (VIP had earlier introduced this brand in 1980s). With attractive price points in the range of Rs600- 5,000, backpacks have grown at a CAGR of 20-25% during the last five years. VIP has been able to create brand recall of Skybags amongst youth. Backpacks are growing at a faster rate due to: 1) large presence of unorganized players, 2) rising sales of two-wheelers, organized workforce and students, and 3) frequency of purchase is much higher compared to luggage.

In 2013, VIP launched Caprese to capitalize their distribution channel by selling it directly from company owned stores, modern trades and e-com channels. Caprese has grown at a much faster rate (30%+) since its launch in 2013. Handbags require higher number of SKUs and hence very efficient inventory management. VIP has been successfully able to manage higher SKUs efficiently. Even in backpacks, VIP has added many designs which have been well received by the markets.

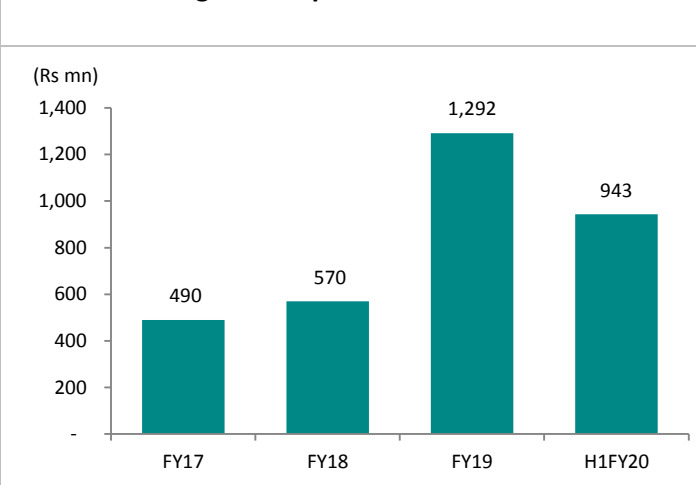
Exhibit 21: Competitive landscape in backpacks		Exhibit 22: Handbags	
Backpack competitors	Price range (Rs/piece)	Handbag competitors	Price range (Rs/piece)
Safari	400-2,600	VIP (Caprese)	880-2,500
American Tourister	500-3,200	Baggit	1,200-3,500
Skybags	580-4,800	Zara	1,290-7,990
Fastrack	680-2,200	H & M	1,500-3,000
PUMA	700-3,600		
Adidas	700-4,000		
Fila	700-2,600		
Wildcraft	800-2,500		
FB Fashion	1,050-2,800		
Under Armour	1,600-12,000		
Nike	1,800-4,600		
New Balance	2,000-12,000		
<i>Source: E-com channels, IDBI Capital Research</i>		<i>Source: E-com channels, IDBI Capital Research</i>	

■ Rising contribution from Bangladesh plant to improve margins

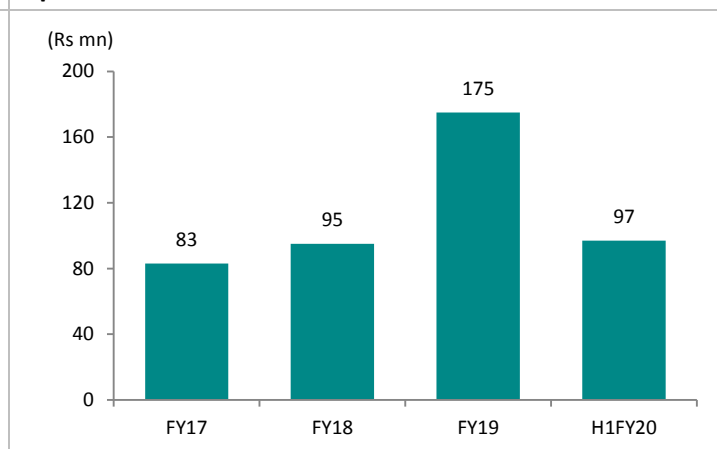
Traditionally, VIP imported soft luggage mainly from China as China is world's factory for soft luggage. However, over the past decade, wage cost has risen sharply in China. Hence, VIP has steadily raised supplies from its fully owned subsidiaries in Bangladesh where labour cost is nearly one-third compared to China.

Currently, Bangladesh operations contribute only a small portion of bags; however, VIP aims to gradually increase supplies from Bangladesh which will be margin accretive. Over the coming three years, VIP aims to increase procurement from Bangladesh to 20-25% of soft luggage vs. 5% currently.

Exhibit 23: Benefits of increasing sourcing from Bangladesh operations	
Lowers cost	Cost of manufacturing in Bangladesh is cheaper as labour cost is one third to that of China.
Import duty savings	Import of luggage into India attracts 15% duty. However, Bangladesh is exempted from import duty resulting in direct savings.
Sourcing advantage	With captive manufacturing set-up, VIP can exercise better control over raw material purchases. This can be beneficial in times when raw materials prices fall.
<i>Source: Company, IDBI Capital Research</i>	

Exhibit 24: Bangladesh operations sales continue to rise


Source: Company, IDBI Capital Research

Exhibit 25: Net profit growing steadily at Bangladesh operations


Source: Company, IDBI Capital Research

■ **Channel checks indicate strong brand positioning of VIP**

Our visits to EBOs, MBOs, hypermarkets indicate : 1) Skybags backpacks are popular amongst youth, 2) nearly 50% of customers preferred branded luggage in a traditional retail outlet, 3) Recalls were generally low, but after sales service of Samsonite/VIP stand out, 4) backpacks are growing at faster rate; large bags sales have been slowing recently.

Our channel checks suggest unbranded players cannot match after sales service levels of branded players

Exhibit 26: Key takeaways from channel checks across EBOs, MBOs, hypermarkets

Product quality	Samsonite's product quality was found better than others although the pricing was high, compared to others. However, there were some Chinese/ Indian companies which offered warranties for 1-3 years which traditional retailers were keen to push.
Canteen Stores Department (CSD) sales	Our interaction with executives at CSD indicates that the stringent regulations in the past one year have led to fall in overall sales for all the players. Receivable days are high in CSD sales; nevertheless, they remained secured.
After sales service	Samsonite and VIP had strong after sales service in India; Samsonite offered after sales service internationally also. VIP had third party tie-ups for overseas after sales service. Unbranded players after-sales service was weakest.
Hard luggage	In Hard luggage, Samsonite was the only player to offer light weight luggage until recently. VIP has recently launched light weight luggage (1.5 kg for standard 26 inch). Hard luggage is growing at a faster rate; competition from unbranded players is low.
Pricing	In the mass category, the typical premium of branded players is 15-30%. However, in the economy and premium categories, the price differential was found to be between 50-100%.
Trade margins	Trade margins vary across products. However, margins in unbranded luggage are higher.
Competiveness	In the price level below Rs2,500 Safari luggage is competitive vis-à-vis unbranded players. For backpacks and trolleys above Rs2,000, the price differential between branded and unbranded was found to be 70-100%.
Imported vs. domestic unbranded luggage	Vendors preferred to sell domestic products due to their reliability on after-sales service.
Branded vs. unbranded	Our channel checks in traditional retail outlets in Mumbai metros indicate that out of every ten customers, five are likely to buy a branded bag.

Source: Channel checks, IDBI Capital Research

Peer comparison

Safari is largely perceived as an economy brand; VIP has presence across mass, economy and premium segments. Samsonite is mainly present in premium segment and did not have any presence in mass segment, until it launched Kamiliant in 2016. Over FY14-19, Safari has exhibited fastest growth due to its presence in mass segment (fastest growing) and aggressive pricing strategy.

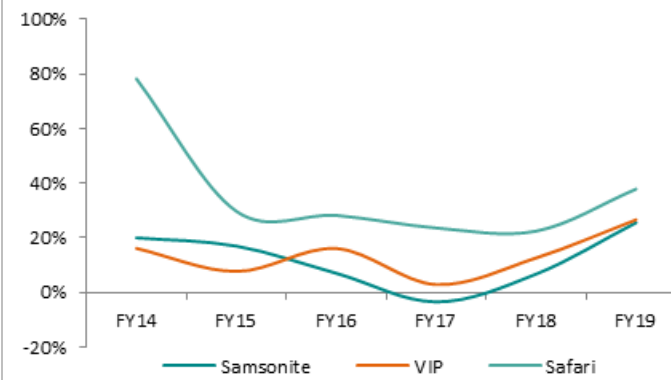
Exhibit 27: Brand portfolio of three large players

Company	Brands	Comments
VIP	VIP, Skybags, Carlton, Caprese, Aristocrat, Alfa	It has brands across categories. It is a leader in economy segment.
Samsonite	Samsonite, American Tourister, High Sierra, Hartman, Tumi, Speck, Kamiliant, Lipault, Gregory, Saxoline	Samsonite is considered to be a premium luggage player and is a leader in the premium category. It commands industry leading margins.
Safari	Safari, Magnum, Genius, Egonauts, Gscape, Activa, DBH, and Genie	Safari is perceived to be a mass player and leader in the mass segment. It has the least operating margins and lower return ratios.

Source: Companies, e-com, IDBI Capital Research

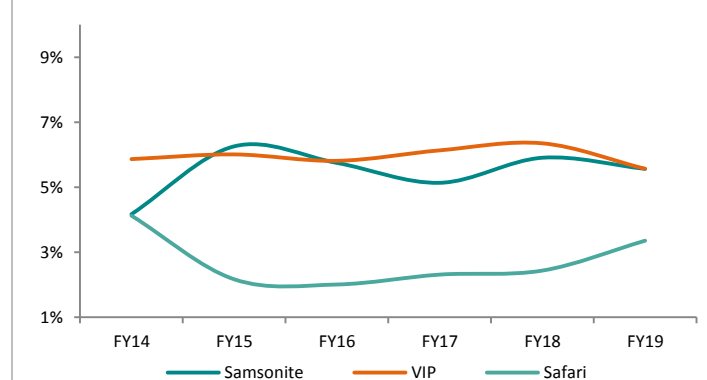
VIP and Samsonite have higher spends on branding as a percentage of sales while Safari's spends towards promotions are lower.

Exhibit 28: Sales growth fastest for Safari



Source: Companies, IDBI Capital Research

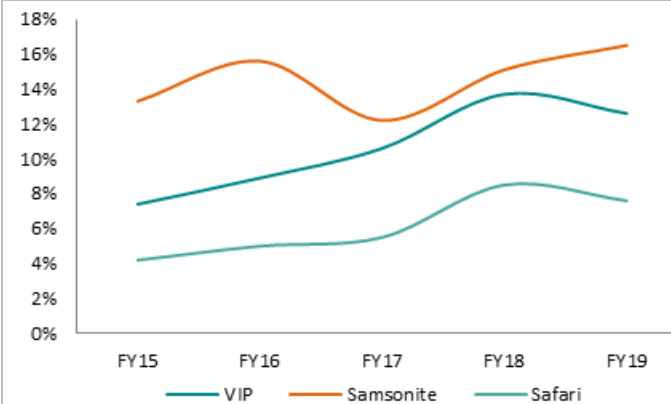
Exhibit 29: Promotional expenditure as a percentage of sales



Source: Companies, IDBI Capital Research

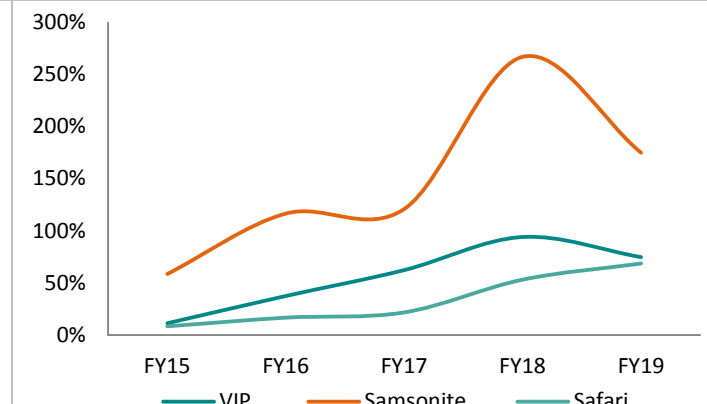
EBITDA margin for Samsonite are higher given its strong presence in premium category. Historically, VIP and Samsonite have the best SSGR ratio. Safari's SSGR ratio is high as its dividend payout is lower.

Exhibit 30: EBITDA margin highest for Samsonite



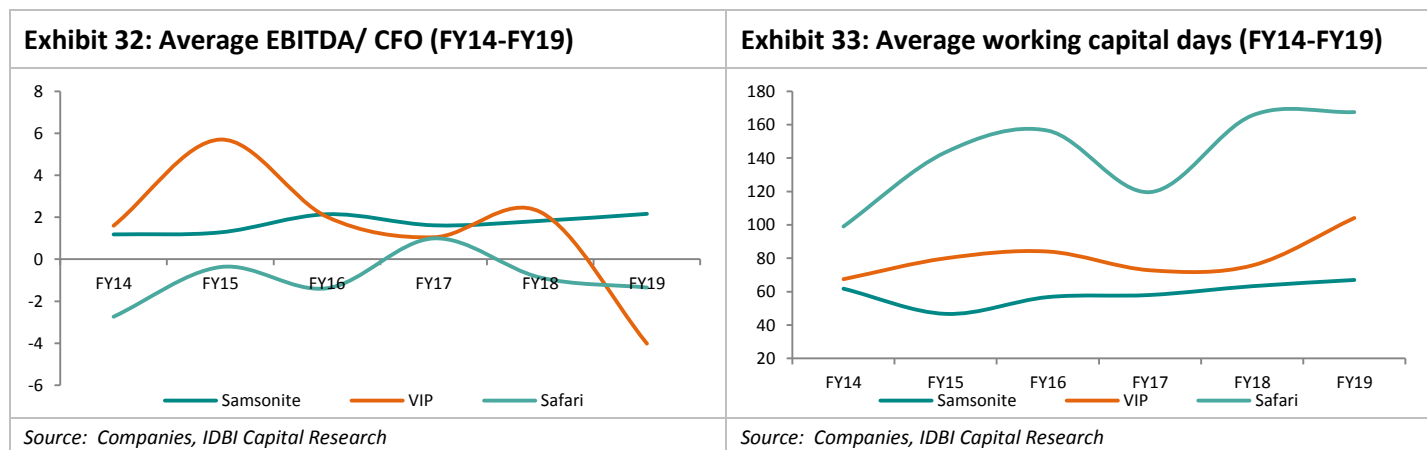
Source: Companies, IDBI Capital Research

Exhibit 31: SSGR ratio strong for VIP, Samsonite and Safari

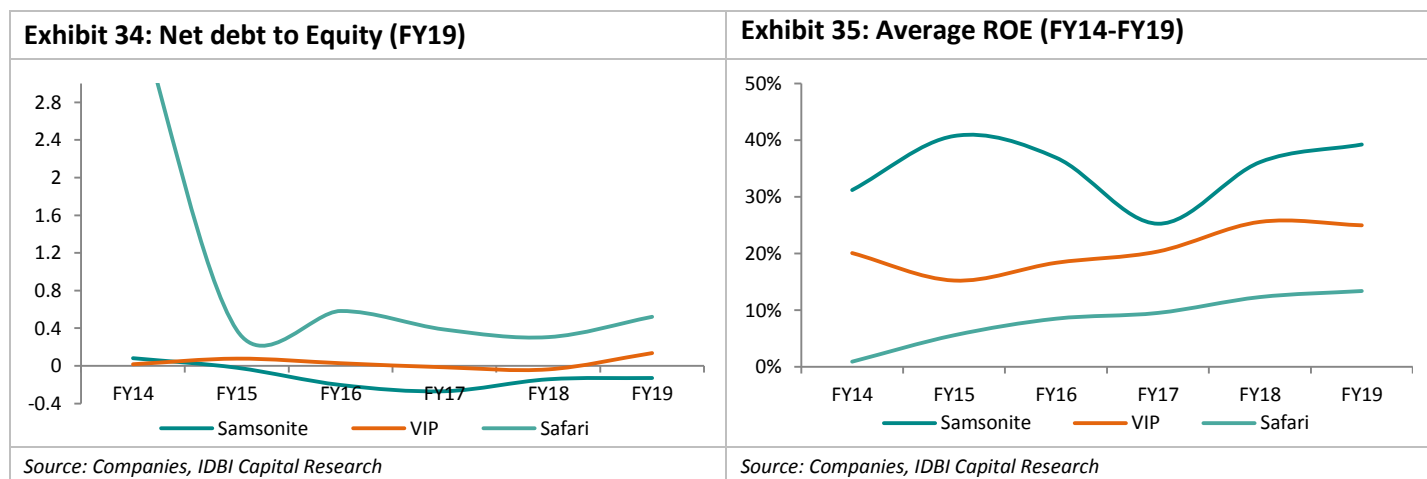


Source: Companies, IDBI Capital Research

Working capital needs are much higher for Safari and hence its EBITDA/CFO has been lower. Safari's aggressive pricing and higher credit to its dealers/distributors have led to higher working capital cycle.



Although Safari has exhibited strong top line growth over the last 5-7 years, its debt to equity and return ratios are worst amongst all three organized players. Also, during the last five years, Safari has diluted equity by 49% (none by VIP).



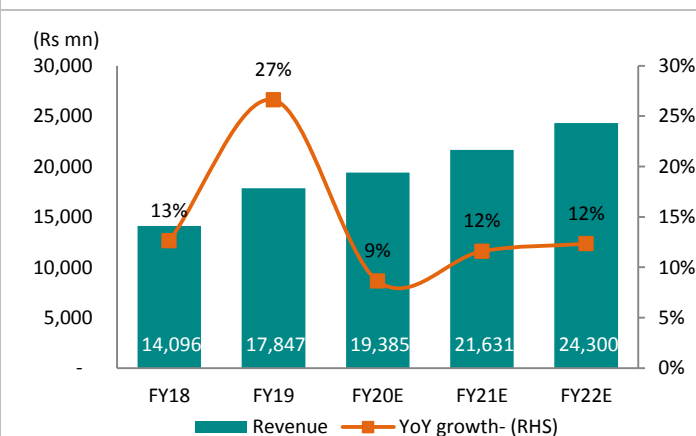
Financials

In H1FY20, VIP's sales growth has averaged only 6.2% due to slowdown in discretionary spending. Hence, we expect sales to grow at 8.6% in FY20. Nevertheless, we expect sales grow at 11.6%/12.3% in FY21/FY22 led by faster growth in backpack and handbag categories.

VIP's EBITDA is expected to grow at a CAGR of 25.3% over FY19-22E

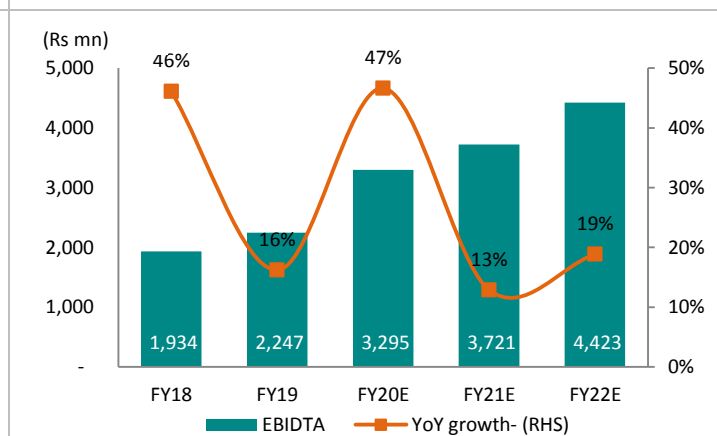
Although VIP's sales has grown at slower pace in H1FY20, its EBITDA has grown at a higher rate (+29.9%) led by 1) higher gross margins due to negotiations with Chinese vendors, 2) Ind AS adjustments (lower rent expenses). Overall, we expect the EBITDA margins to sustain and forecast EBITDA to grow at a CAGR of 25.3% over FY19-22E. However, adjusted net profit is likely to grow at a slower rate (CAGR of 20.4%) due to higher depreciation and finance cost.

Exhibit 36: Top-line to grow at CAGR of 10.8% over FY19-22E



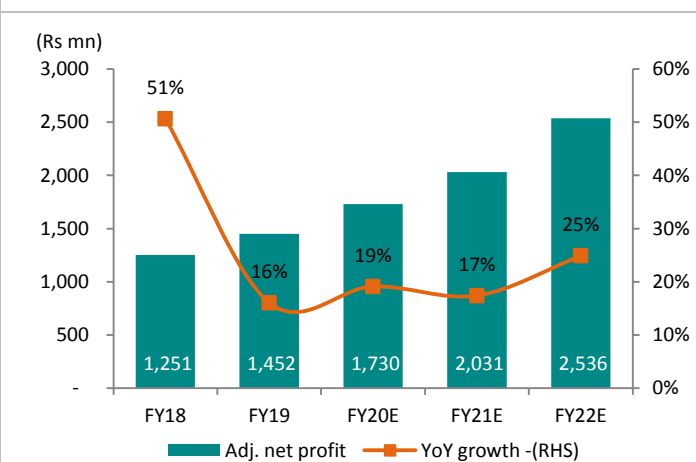
Source: Company; IDBI Capital Research

Exhibit 37: EBITDA to grow at CAGR of 25.3% over FY19-22E

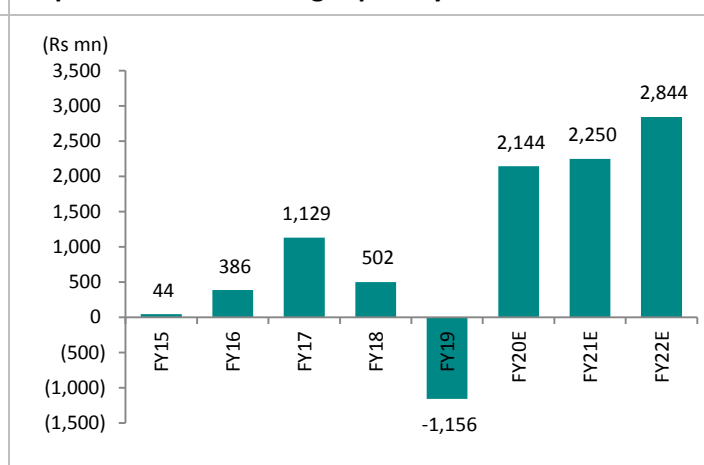


Source: Company; IDBI Capital Research

We expect inventory days to fall from 108 days in FY19 to 101 days by end of FY20 as the company targets lower inventory levels. This, alongside higher EBITDA are likely to improve free cash flows over FY19-22E.

Exhibit 38: Adjusted net profit to grow at CAGR of 20.4% over FY19-21E


Source: Company; IDBI Capital Research

Exhibit 39: Free cash flows to improve due to improvement in working capital cycle


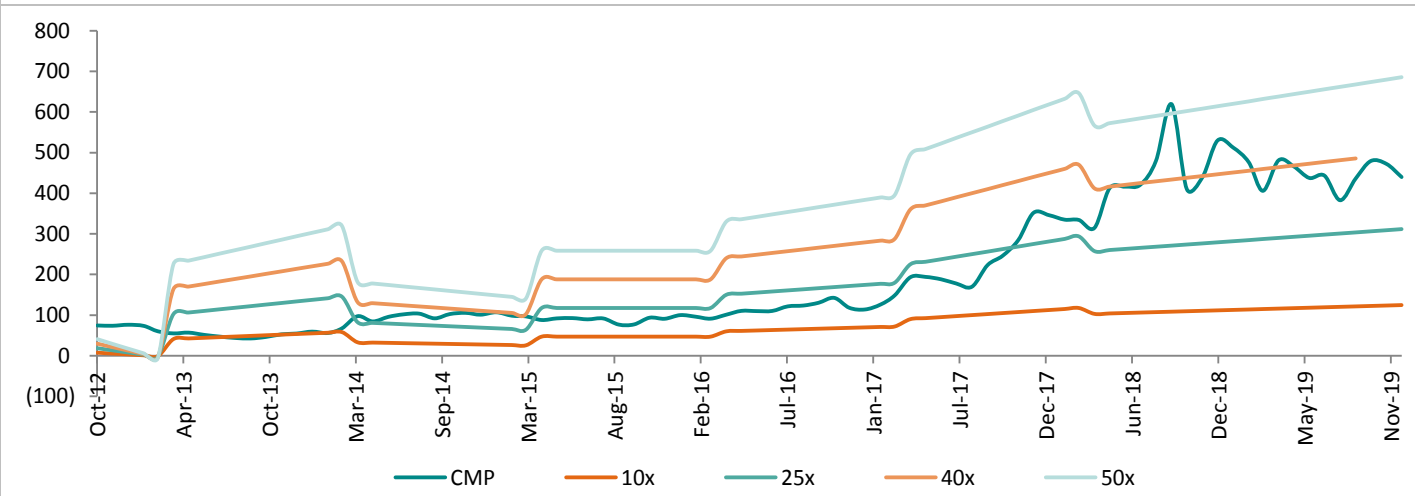
Source: Company; IDBI Capital Research

Valuation and Outlook

■ **Initiate coverage with a target price of Rs574**

Over FY14-19, VIP’s sales/EBTIDA/net profits have grown at a CAGR of 13%/23%/20%, respectively. Looking ahead, we forecast its EBITDA/net profits are to grow at CAGR 25%/20% over FY19-22E, respectively. VIP’s stock is trading at valuation of 24.3x FY22E P/E indicating its brand value and strong growth prospects (large opportunity size). We value the stock at PER of 32x FY22E (in-line with last 3-years’ average one-year forward multiple) to derive a target price of Rs574.

Exhibit 40: One year forward PE multiple



Source: Bloomberg, IDBI Capital Research

About the Company

Headquartered in Mumbai, VIP started its initial operations in 1971. It is currently Asia’s largest luggage and world’s second largest luggage manufacturer in the world. VIP sells both hard (25-30%) and soft luggage (70-75%). Its products include school bags, trolleys, backpacks, suitcases, executive cases, duffels and overnight travel solutions. It markets products under various brand names such as Aristocrat, Skybags and Alfa to the mass/economy segments. Also, it has brands such as Carlton, Caprese and VIP to cater to premium segment.

The company has 4 manufacturing facilities, three of which are in Maharashtra (Nashik and Nagpur) and one in Haridwar in Uttarakhand. It has also set up a subsidiary in Bangladesh for its soft luggage production. It imports 65-70% of raw materials from China and also exports to Africa, Middle East and Southeast Asia.

Exhibit 41: VIP’s brands

Brand	Year of launch	Brand position
VIP	1971	Economy to premium segment
Alfa	1971	Mass market ‘value for money’
Carlton	2004	Premium business travel, with British feel
Aristocrat	2007	Mass market consumer, durable & affordable
Skybags	2012	Stylish luggage and backpacks targeted towards youth
Caprese	2012	Mid-premium handbag for the modern women

Source: Company, IDBI Capital Research

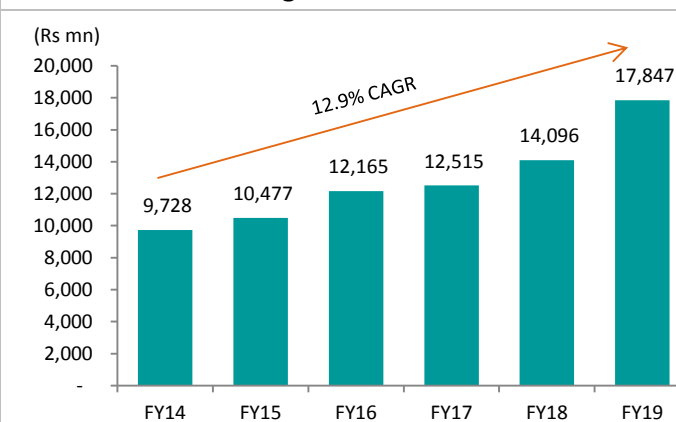
Management profile

Mr. Dilip Piramal, Chairman – With more than 45 years in the luggage industry, Mr. Piramal has changed the face of the Indian luggage industry and established VIP industries as a dominant player in India.

Ms. Radhika Piramal, Executive Vice Chairperson– Ms. Radhika holds an MBA from Harvard University, and has graduated from Oxford University. She served as Managing Director in VIP from 2011 to 2017.

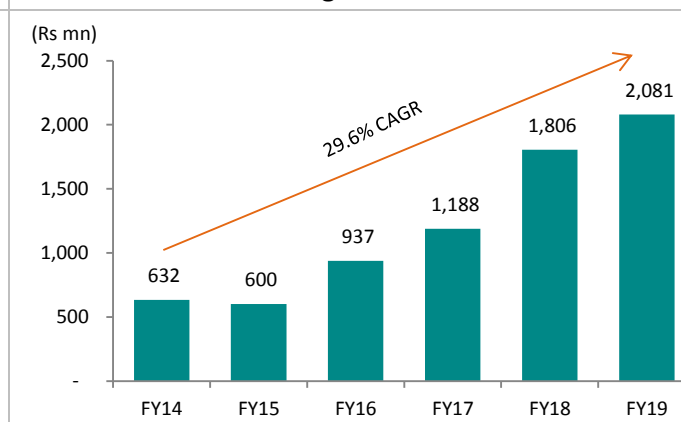
Sudip Ghose, Managing Director – Mr. Sudip joined VIP as marketing head in 2013, and was earlier employed with rival Samsonite. He holds an MBA degree from NMIMS, Mumbai.

Exhibit 42: VIP's sales growth trend



Source: Company; IDBI Capital Research

Exhibit 43: VIP's EBITDA growth trend



Source: Company; IDBI Capital Research

Key risks

- **A sharp rise in prices of key raw materials:** A sharp increase in prices of key raw materials, including polyester, cotton, aluminium is likely to impact VIP's gross margins. Also, VIP imports significant proportion of soft luggage from China. Hence, unfavorable movement in exchange rate would impact on VIP's margins.
- **General economic slowdown:** Luggage/Travelling is discretionary and is dependent on growth rates in GDP of a country. Sharp slowdowns in the GDP growth can slowdown sales growth of VIP.

Financial Summary

Profit & Loss Account						(Rs mn)
Year-end: March	FY18	FY19	FY20E	FY21E	FY22E	
Net sales	14,096	17,847	19,385	21,631	24,300	
<i>Growth (%)</i>	12.6	26.6	8.6	11.6	12.3	
Operating expenses	(12,162)	(15,599)	(16,090)	(17,911)	(19,877)	
EBITDA	1,934	2,247	3,295	3,721	4,423	
<i>Growth (%)</i>	46.1	16.2	46.6	12.9	18.9	
Depreciation	(128)	(166)	(827)	(865)	(923)	
EBIT	1,806	2,081	2,468	2,855	3,499	
Interest paid	(3)	(15)	(263)	(260)	(243)	
Other income	77	82	107	119	134	
Pre-tax profit	1,879	2,149	1,827	2,715	3,390	
Tax	(628)	(697)	(583)	(684)	(854)	
<i>Effective tax rate (%)</i>	33.4	32.4	31.9	25.2	25.2	
Minority interest	-	-	-	-	-	
Net profit	1,251	1,452	1,245	2,031	2,536	
Exceptional items	-	-	(485)	-	-	
Adjusted net profit	1,251	1,452	1,730	2,031	2,536	
<i>Growth (%)</i>	50.7	16.0	19.1	17.4	24.9	
<i>Shares o/s (mn)</i>	141	141	141	141	141	

Cash Flow Statement						(Rs mn)
Year-end: March	FY18	FY19	FY20E	FY21E	FY22E	
Pre-tax profit	1,879	2,149	1,827	2,715	3,390	
Depreciation	119	199	784	822	877	
Tax paid	(629)	(692)	(591)	(694)	(871)	
Chg in working capital	(75)	(2,209)	20	(175)	(115)	
Other operating activities	-	29	(115)	(118)	(117)	
Cash flow from operations (a)	1,294	(525)	1,925	2,549	3,164	
Capital expenditure	(310)	(609)	(455)	(448)	(452)	
Chg in investments	(31)	699	-	-	-	
Other investing activities	-	-	-	-	-	
Cash flow from investing (b)	(341)	90	(455)	(448)	(452)	
Equity raised/(repaid)	0	0	(0)	-	-	
Debt raised/(repaid)	1	880	(866)	-	-	
Dividend (incl. tax)	(437)	(541)	(565)	(848)	(1,060)	
Chg in minorities	-	-	-	-	-	
Other financing activities	-	-	-	-	-	
Cash flow from financing (c)	(436)	340	(1,432)	(848)	(1,060)	
Net chg in cash (a+b+c)	517	(96)	38	1,254	1,652	

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E	FY22E
Net fixed assets	793	1,203	874	500	75
Investments	729	30	30	30	30
Other non-curr assets	131	139	155	198	231
Current assets	6,074	9,339	9,840	11,814	14,274
Inventories	3,165	5,274	5,356	5,562	5,782
Sundry Debtors	1,766	2,986	3,244	3,619	4,066
Cash and Bank	238	142	180	1,434	3,086
Loans and advances	191	253	271	324	364
Total assets	7,727	10,711	10,899	12,541	14,609
Shareholders' funds	4,891	5,814	6,489	7,671	9,147
Share capital	283	283	283	283	283
Reserves & surplus	4,608	5,531	6,206	7,389	8,864
Total Debt	6	886	19	19	19
Secured loans	6	24	19	19	19
Unsecured loans	-	862	-	-	-
Other liabilities	1	1	2	2	2
Curr Liab & prov	2,829	4,010	4,389	4,848	5,440
Current liabilities	2,699	3,842	4,189	4,625	5,189
Provisions	130	168	200	223	250
Total liabilities	2,836	4,897	4,410	4,870	5,462
Total equity & liabilities	7,727	10,711	10,899	12,541	14,609
Book Value (Rs)	35	41	46	54	65

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E	FY22E
Adj. EPS (Rs)	8.9	10.3	12.2	14.4	17.9
Adj. EPS growth (%)	50.7	16.0	19.1	17.4	24.9
EBITDA margin (%)	13.7	12.6	17.0	17.2	18.2
Pre-tax margin (%)	13.3	12.0	9.4	12.6	14.0
ROE (%)	27.9	27.1	28.1	28.7	30.2
ROCE (%)	40.2	35.9	37.4	40.2	41.5
Turnover & Leverage ratios (x)					
Asset turnover (x)	2.0	1.9	1.8	1.8	1.8
Leverage factor (x)	1.5	1.7	1.8	1.7	1.6
Net margin (%)	8.9	8.1	8.9	9.4	10.4
Net Debt/Equity (x)	0.0	0.1	0.0	(0.2)	(0.3)
Working Capital & Liquidity ratio					
Inventory days	82	108	101	94	87
Receivable days	46	61	61	61	61
Payable days	64	75	78	79	80

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E	FY22E
P/E (x)	49.3	42.5	35.7	30.4	24.3
Price / Book value (x)	12.6	10.6	9.5	8.0	6.7
PCE (x)	44.7	38.1	24.1	21.3	17.8
EV / Net sales (x)	4.4	3.5	3.2	2.8	2.4
EV / EBITDA (x)	31.8	27.8	18.7	16.2	13.3
Dividend Yield (%)	0.6	0.7	0.9	1.4	1.7



Notes

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Key to Ratings Stocks:

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

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