

Cost optimisation, strong b/s to tide over tough demand scenario...

The Covid-19 pandemic continues to have a grievous impact on the global travel industry and retail environment. Revenues in Q2FY21 de-grew 75% YoY to ₹ 102.8 crore. However, VIP was able to materially reduce operating overheads by 60% (employee, other expenses down 49%, 66% YoY, respectively), which curtailed EBITDA losses. EBITDA losses narrowed down QoQ to ₹ 22.1 crore (Q1FY21: ₹ 57.8 crore). It has identified and is implementing close to ~ ₹ 180 crore fixed cost savings in FY21E of which it believes ~50% will be sustainable in nature. Q3FY21E performance is expected to be relatively better due to festive season and wedding purchases. Also, with certain green shoots visible in domestic travel industry, demand can pick up pace from H2FY21E onwards. Given the healthy b/s, strong manufacturing capabilities in Bangladesh (soft luggage), we expect VIP will be able to effectively manage through the challenging environment. While revenue recovery may take longer time, structural changes in fixed overheads will lead to faster recovery in profitability terms.

Key conference call takeaways

i) The management indicated that pandemic has the hit travel industry the hardest and may have pushed the luggage industry two to three years back (luggage being proxy play), ii) to minimise cash burn, VIP has significantly rationalised fixed overheads from ₹ 40 crore/month to ₹ 24 core/ month, iii) it will be cutting on advertising and marketing spends and has already shut down 100 (out of 250) non-profitable EBOs, iv) liquidation of existing inventory putting pressure on gross margins, v) Bangladesh manufacturing currently utilised for manufacturing masks (run rate: ₹ 3 crore/month) to absorb fixed overheads, vi) expects manufacturing operations to resume from Q3FY21 onwards, vii) it is planning to manufacture handbags in its Bangladesh facility (earlier used to be imported from China), viii) share of e-commerce increased from 7% to ~27. Gross margins are generally lower for e-commerce channel. To address this, the company will engineer products specifically for the channel, ix) to consolidate its manufacturing operations, VIP has transferred its capacities from Haridwar plant to its Nashik plant. Profit on sale of land and building would be ~ ₹ 12 crore.

Valuation & Outlook

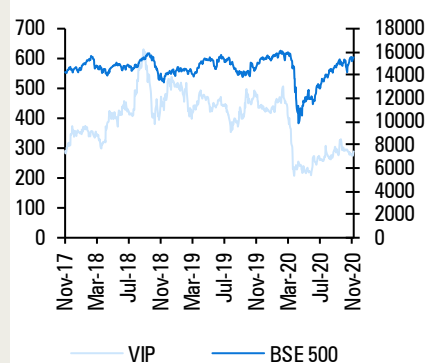
The company is well placed in the liquidity position as it has borrowing limits worth ₹ 300 crore. While VIP has withdrawn ~₹ 200 crore, the company has not utilised the same (cash & investments: ₹ 206 crore as on H1FY21). VIP has, over the years, maintained balance sheet prudence with stringent working capital policy, virtually debt free status and healthy RoCE: 30%+. Owing to its strong balance sheet and being market leader, its business model has the inherent ability to tide over tough market conditions better than peers. Furthermore, strong manufacturing capabilities in Bangladesh (for soft luggage) give VIP an edge over its peers who depend mainly on import. We upgrade the stock from HOLD to **BUY** with a revised target price of ₹ 370 (35x FY23E EPS).



Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	4,380.3
Total Debt (FY20) (₹ crore)	32.2
Cash (FY20) (₹ crore)	10.8
EV (₹ crore)	4,401.7
52 Week H / L	520 /187
Equity Capital (₹ crore)	28.3
Face Value (₹)	2.0

Price Chart



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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1,784.7	1,718.3	587.5	1,438.9	1,756.5	0.7%
EBITDA	224.7	291.3	-102.2	255.4	306.5	1.7%
Net Profit	145.3	111.7	-138.0	122.0	150.0	10.3%
P/E (x)	30.2	39.2	-31.7	35.9	29.2	
EV/Sales (x)	2.5	2.5	7.6	3.1	2.4	
EV/EBITDA (x)	19.8	15.0	-43.7	17.2	14.0	
RoCE (%)	32.4	34.2	-24.0	30.3	31.5	
RoE (%)	25.0	18.3	-29.2	21.9	22.6	

Source: ICICI Direct Research, Company n Q1FY20, company reported and exceptional loss of ₹ 48.0 crore pertaining to fire at Ghaziabad warehouse.

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	1,718.3	587.5	1,438.9	1,756.5
Growth (%)	(3.7)	(65.8)	144.9	22.1
Total Raw Material Cost	805.9	340.7	690.7	843.1
Gross Margins (%)	53.1	42.0	52.0	52.0
Employee Expenses	210.5	141.0	164.0	196.7
Other Expenses	410.6	208.0	328.8	410.1
Total Operating Expenditure	1,427.0	689.7	1,183.5	1,450.0
EBITDA	291.3	(102.2)	255.4	306.5
EBITDA Margin	17.0	(17.4)	17.8	17.5
Interest	23.0	32.6	21.1	23.9
Depreciation	83.9	77.7	81.1	92.1
Other Income	12.5	28.0	10.0	10.0
Exceptional Expense	(48.5)	-	-	-
PBT	148.4	(184.5)	163.2	200.5
Total Tax	36.7	(46.5)	41.1	50.5
Profit After Tax	111.7	(138.0)	122.0	150.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	111.7	-138.0	122.0	150.0
Add: Depreciation	83.9	77.7	81.1	92.1
Net Increase in Current Assets	113.0	186.4	-104.8	-64.4
Net Increase in Current Liabilities	-39.5	-167.8	108.6	58.8
CF from operating activities	269.1	-41.7	206.9	236.5
(Inc)/dec in Investments	-40.1	6.6	30.0	0.0
(Inc)/dec in Fixed Assets	-41.6	-20.4	-40.0	-40.0
Others	-221.1	11.8	0.0	0.0
CF from investing activities	-302.8	-2.0	-10.0	-40.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-54.0	127.8	-110.0	0.0
Dividend Paid	-83.0	0.0	-36.6	-45.0
Others	167.2	-59.4	-54.1	-59.9
CF from financing activities	30.2	68.5	-200.7	-104.9
Net Cash flow	-3.5	24.7	-3.7	91.6
Opening Cash	14.2	10.8	35.5	31.7
Closing Cash	10.8	35.5	31.7	123.4

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	28.3	28.3	28.3	28.3
Reserve and Surplus	581.9	443.9	529.3	634.3
Total Shareholders funds	610.1	472.1	557.6	662.5
Total Debt	32.2	160.0	50.0	50.0
Non Current Liabilities	240.9	237.9	237.9	237.9
Source of Funds	883.2	870.0	845.4	950.4
Gross block	197.8	217.8	257.8	297.8
Less: Accum depreciation	65.3	86.6	113.7	145.8
Net Fixed Assets	132.5	131.2	144.1	152.0
Capital WIP	2.7	3.0	3.0	3.0
Intangible assets	4.0	4.1	4.1	4.1
Investments	43.1	36.5	6.5	6.5
Inventory	451.4	370.2	402.1	433.1
Cash	10.8	35.5	31.7	123.4
Debtors	267.4	161.0	232.6	264.7
Loans & Advances & Other CA	82.7	83.9	85.1	86.4
Total Current Assets	812.3	650.5	751.6	907.6
Creditors	292.0	112.7	220.8	279.1
Provisions & Other CL	69.5	81.0	81.5	82.0
Total Current Liabilities	361.5	193.7	302.3	361.1
Net Current Assets	450.7	456.8	449.3	546.5
LT L& A, Other Assets	250.2	238.4	238.4	238.4
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	883.2	870.0	845.4	950.4

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	7.9	-9.8	8.6	10.6
Cash EPS	13.8	-4.3	14.4	17.1
BV	43.2	33.4	39.5	46.9
DPS	6.1	0.0	2.6	3.2
Cash Per Share	0.8	2.5	2.2	8.7
Operating Ratios (%)				
EBITDA margins	17.0	-17.4	17.8	17.5
PBT margins	8.6	-31.4	11.3	11.4
Net Profit margins	6.5	-23.5	8.5	8.5
Inventory days	95.9	230.0	102.0	90.0
Debtor days	56.8	100.0	59.0	55.0
Creditor days	62.0	70.0	56.0	58.0
Return Ratios (%)				
RoE	18.3	-29.2	21.9	22.6
RoCE	34.2	-24.0	30.3	31.5
Valuation Ratios (x)				
P/E	39.2	-31.7	35.9	29.2
EV / EBITDA	15.0	-43.7	17.2	14.0
EV / Sales	2.5	7.6	3.1	2.4
Market Cap / Revenues	2.5	7.5	3.0	2.5
Price to Book Value	7.2	9.3	7.9	6.6
Solvency Ratios				
Debt / Equity	0.1	0.3	0.1	0.1
Debt/EBITDA	0.1	-1.6	0.2	0.2
Current Ratio	2.2	3.2	2.4	2.2
Quick Ratio	1.0	1.3	1.1	1.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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