

VIP Industries

Secular play on consumption and changing lifestyle.

VIP Industries Ltd (VIP) is the largest luggage player in India with ~50%+ market share in the organised market. It has been able to create successful sub brands like Carlton, VIP Bags, Skybags, Aristocrat, Alfa and Caprese. We feel that the company is in very sweet spot where it is gaining market share from unorganised players and can grow at 25%+ CAGR for next couple of years.

Favourable Industry dynamics for organized players post GST: Indian luggage industry is valued at ₹10000cr+ and is largely dominated by the unorganized players. The top three branded players - VIP, Samsonite and Safari forms ~30% of this market. Owing to improving economy and increasing travel, the luggage industry has posted a 13%+ CAGR in the past few years and is expected to maintain this momentum for next few years. With GST implementation in 2017, the new cost dynamics has further led to industry shifting towards organized players.

Diversified product portfolio and strong sub brands: VIP's has one of the most diversified luggage offerings. The company's sub brand like Aristocrat and Alfa cater to the mass segments while the brands like Carlton, Caprese and V.I.P. cater to the mid to premium segment. The company is also targeting the youth through its trendy brand – Skybags which is one of the fastest growing category.

Strong brand visibility with wide distribution network: VIP has been able to create strong sub brands by continuously spending ~5-6% percentage of annual revenue on advertising. It has also started using film star celebrities as brand ambassador for creation of strong individual sub brands. Currently, VIP has distribution network of over 10,000+ retail outlets points of sale which has increased from ~8000 points in ~two years.

Outlook and Valuation: Backed by robust growth in volume and better brand awareness, we expect VIP to report a CAGR of ~26% and 35% respectively in top line and bottom-line respectively over FY2018-20E. The recent correction has given the investors an opportunity to invest in a market leader with favourable demand dynamics. It is currently trading at a P/E of 29x its FY2020E EPS which looks attractive looking at its leadership position in a growing sector. **Hence we initiate coverage on the stock with a Buy recommendation and target price of ₹555 (35x FY2020E EPS), indicating an upside of ~20% from the current levels.**

Key financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Net Sales	1,216	1,252	1,410	1,804	2,255
% chg	16.1	2.9	12.6	28.0	25.0
Net Profit	66	85	127	179	225
% chg	52.7	28.2	48.8	41.3	25.5
OPM (%)	8.9	10.6	13.7	15.0	15.0
EPS (Rs)	4.7	6.0	9.0	12.7	15.9
P/E (x)	98.2	76.8	51.5	36.5	29.0
P/BV (x)	19.2	16.0	13.3	11.6	9.4
RoE (%)	19.6	20.9	25.9	31.7	32.4
RoCE (%)	26.6	29.1	36.9	45.4	46.6
EV/Sales (x)	5.4	5.2	4.6	3.6	2.9
EV/EBITDA (x)	60.4	48.7	33.3	23.9	19.1

Source: Company, Angel Research, Note: CMP as of November 19, 2018

Please refer to important disclosures at the end of this report

Initiating coverage | Luggage
November 19, 2018

BUY

CMP ₹462
Target Price ₹555

Investment Period 12 Months

Stock Info

Sector	Luggages
Market Cap (₹ cr)	6,514
Gross Debt (₹ cr)	Nil
Beta	1.3
52 Week High / Low	645/287
Avg. Daily Volume	24,099
Face Value (₹)	2
BSE Sensex	35,457
Nifty	10,682
Reuters Code	VIPI.BO
Bloomberg Code	VIP@IN

Shareholding Pattern (%)

Promoters	53.5
MF / Banks / Indian FIs	28.1
FII / NRIs / OCBs	12.1
Indian Public / Others	13.2

Abs. (%)	3m	1yr	3yr
Sensex	(6.7)	1.4	38.1
VIP	(20.6)	49.4	394.0

3 year daily price chart



Source: Company, Angel Research

Nidhi Agrawal

022-39357800 Ext: 6872

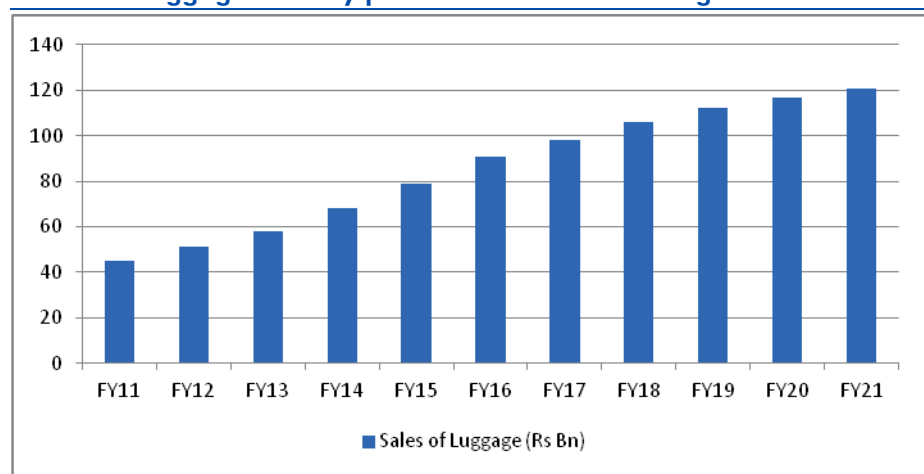
nidhi.agrawal@angelbroking.com

Investment Arguments

Growth to be driven by shift in trend from unorganized to organized sector

The Indian luggage industry is valued at ₹10000cr+ and is largely dominated by the unorganized sector. The top three branded players namely- VIP Industries, Samsonite and Safari forms only ~30% of this market. VIP Industries is the market leader with over 50% market share whereas Samsonite has been losing market share (current at ~35% from the past level of 50%). Owing to improving economy, consumer confidence and increasing travel, the luggage industry has posted a 13%+ CAGR in the past few years and is expected to maintain this momentum for the next few years.

Exhibit 1: Luggage industry posted ~15% CAGR during 2011-16

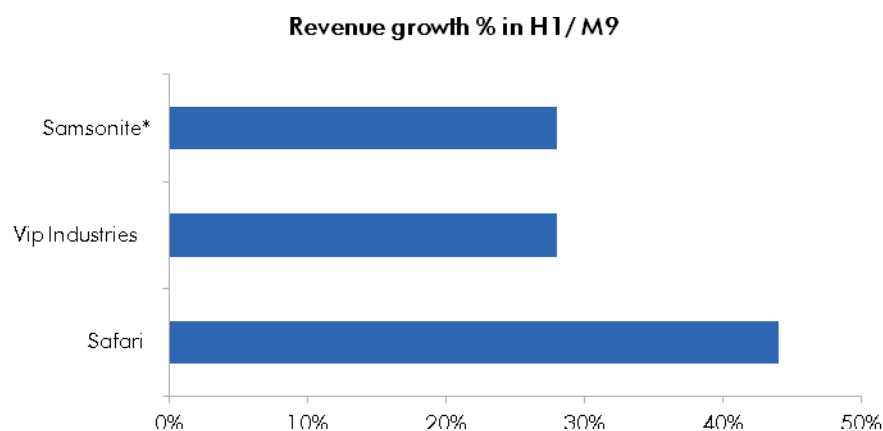


Source: Safari Industries PPT, Angel research

GST has created a level playing field for organized players

With the implementation of the GST in 2017, the indirect tax is to be paid by the unorganised players as well @18% versus earlier 0-12% level. This has reduce the pricing gap between the organized and unorganized players has reduced, thereby providing a level playing field to the organized players. Now the customer is giving preference to the branded players over the non branded ones for the marginal price difference. This has boosted the sales of all the three major players in the last 1 year.

Exhibit 2: Revenue has picked up for the top 3 players

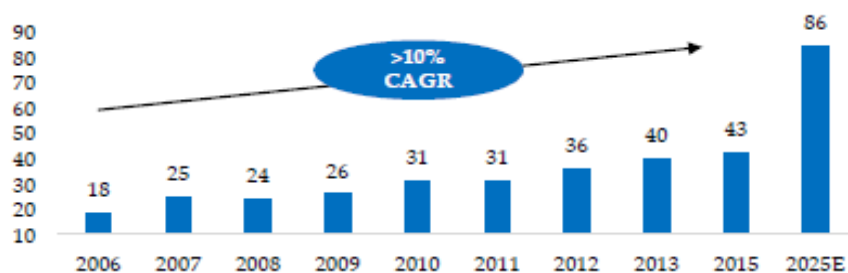


Source: Companies, Angel Research* Samsonite revenue for M9FY18

Increasing travel and premiumization is driving the growth

Most players are coming up with more youth-orientated products like lightweight and more efficient backpacks and duffel bags. Robust demand for luggage is led by the fact that most youngsters now are keen on travel and adventure, increasing demand for hands-free and hassle-free luggage. The Indian luggage industry is likely to benefit as the people have become more demanding in term of style and comfort for travel luggage. VIP with its mid to premium offerings is likely to see better margins as compared to Safari which mainly offers in the economy segments.

Exhibit 3: Indian tourism industry growing >10% CAGR



Source: Safari Industries PPT, Angel research

Diversified product portfolio and catering to all segment of customers

VIP's has one of the most diversified luggage offerings, which caters to consumers of all income groups. The company's brand like Aristocrat and Alfa cater to the mass segments while the brands like Carlton, Caprese and V.I.P. cater to the mid to premium segment. The company is also targeting the youth through its trendy brand – Skybags which is one of the fastest growing category.

Exhibit 4: Launch of new brands

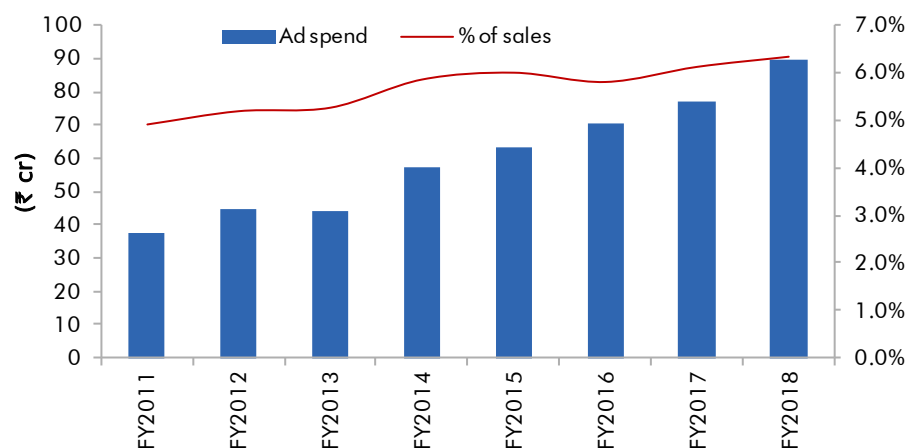
Brand	Year	Brand Positioning
VIP	1971	Mass mid-premium
Alfa	1971	Mass market targeted to convert consumers purchasing unbranded luggage to VIPs products
Carlton	2004	Premium international brand, targeted towards young professionals
Aristocrat	2007	Value for money
Skybags	2012	Youth oriented, stylish
Caprese	2012	Mass-premium, targeted towards fashion conscious urban women

Source: Company, Angel Research

Multiple sub brands led by aggressive advertising

Historically, the company is continuously spending amount around 5-6% (percentage of sales) on ad spend to increase their brand visibility. Recently, the company has started celebrity endorsement which will further boost its brand visibility.

Exhibit 5: Ad spend % of net sales



Source: Company, Angel Research

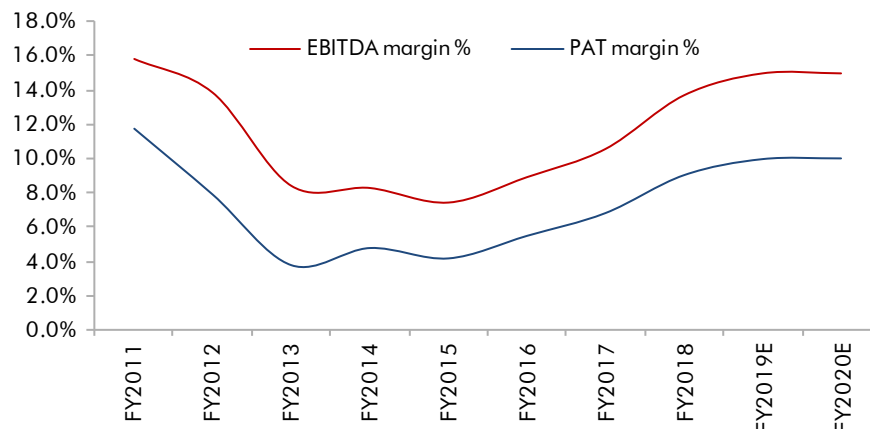
Wide distribution network

Currently, VIP has distribution network of over 10,000+ retail outlets points of sale which has increased from ~8000 points two years back. Channel wise, Canteen Stores Department (CSD) share has fallen post implementation of GST. Online sales forms 5-6% of its sales and may increase now as the company is focusing on this segment.

Margins expand substantially in FY2018

The company has almost doubled its margins over FY2015-18 driven by product premiumization, better negotiation with Chinese suppliers and relatively stable INR exchange rate. 76% of its revenue comes from soft luggage, which is largely imported from China. It has dedicated team of designers in various part of globe like China, Hong Kong which gives designs to the Chinese manufacturer. Soft luggage manufacturing involves labour as the key cost component. Hence, it has recently started sourcing soft luggage from Bangladesh which has relatively lower labour cost over India and China.

Exhibit 6: Margins are on uptrend from historical levels

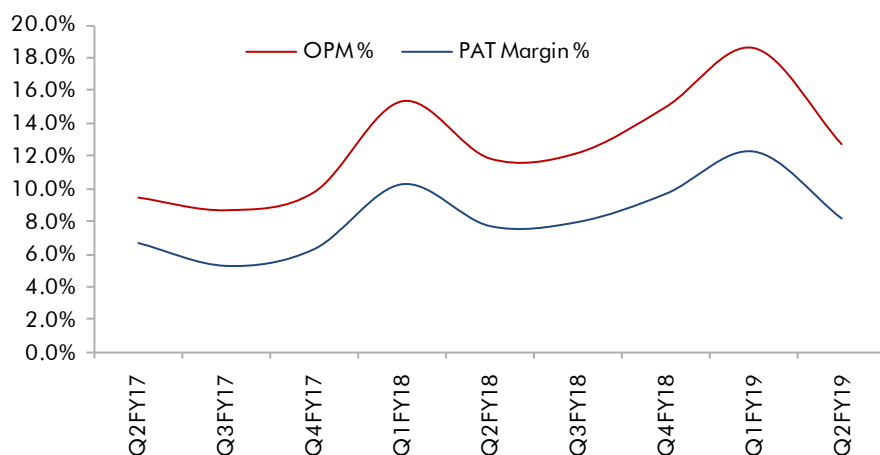


Source: Company, Angel Research

Q2FY2019 showed margin pressure, still margins would be higher than historical level

The company reported a peak margin of 18.6% in Q1FY2019 (Q1 is a usually the strongest quarter of the year with the strongest margins) from which it has cooled off in Q2FY2019 at 12.7%. Further, the rupee depreciation and rise in import duty on luggage in Q2FY2019 have led to this contraction in margin on sequential basis. On the yearly basis, margins have still expanded by 88 bps on a strong revenue growth. The company has also indicated that the margin pressure may continue for some time as the intense competition is making the price hike difficult specially at the lower priced products. We feel that the company may still be reporting stable margins at 14-15% level for the next few years (on secular demand outlook and its multiple strong sub brands) which is above its historical margin level of 10-11%. Sourcing from Bangladesh also helps in mitigating import duty impact as it does not attract import duty and has slower labour cost. It plans to procure upto 20% of the total revenue from Bangladesh.

Exhibit 7: Margins peaked at Q1FY2019



Source: Company, Angel Research

Efficient working capital management and debt free balance sheet

Driven by its efficient working capital management, low capex requirement and robust operating cash flow generation, the company is debt free. It also has robust return ratios.

Exhibit 8: Turnover ratios

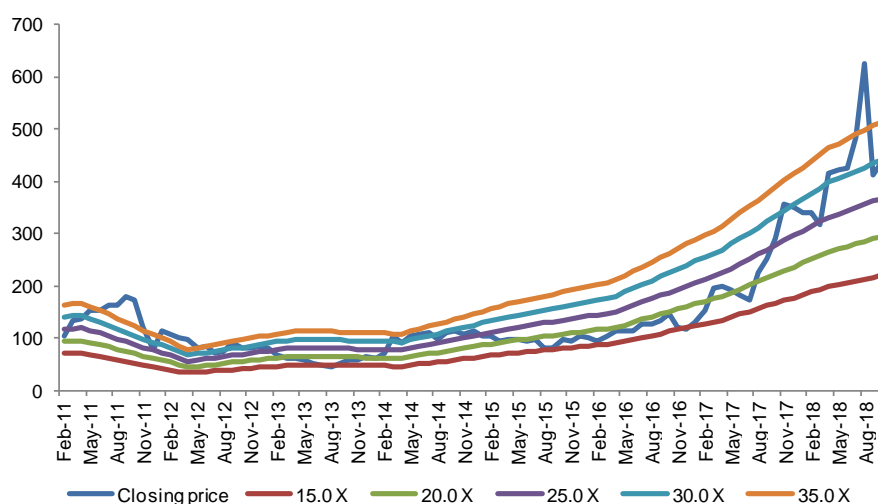
(x)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Asset Turnover (Gross Block)	4.4	4.4	4.5	5.1	5.7
Inventory / Sales (days)	86	87	87	87	87
Receivables (days)	45	35	46	46	46
Payables (days)	52	42	55	55	55
Working capital cycle (ex-cash) (days)	79	80	78	78	78

Source: Company, Angel Research

Outlook and Valuation

Backed by robust growth in volume and better brand awareness, we expect VIP to report a CAGR of ~26% and 35% respectively in top line and bottom-line respectively over FY2018-20E. The recent correction has given the investors an opportunity to invest in a market leader with favourable demand dynamics. It is currently trading at a P/E of 29x its FY2020E EPS which looks attractive looking at its leadership position in a growing sector. Hence we initiate coverage on the stock with a Buy recommendation and target price of ₹555 (35x FY2020E EPS), indicating an upside of ~20% from the current levels.

Exhibit 9: One year forward PE chart



Source: Company, Angel Research

Exhibit 10: Comparison with Safari Industries

	Revenue(₹cr)				CAGR %	OPM %			PAT (₹cr)		
	FY18	FY19	FY20			FY18	FY19	FY20	FY18	FY19	FY20
VIP industries	1410	1804	2255		26.5%	13.7	15.0	15.0	126.8	179.0	224.7
Safari Industries	415	540	702		30.0%	9.8	12.9	12.9	21	41	55
	EPS(₹)				CAGR %	P/E(x)			ROE%		
	FY18	FY19	FY20			FY18	FY19	FY20	FY18	FY19	FY20
VIP industries	9	13	16		33.2%	51.5	36.5	29.0	25.9	31.7	32.4
Safari Industries	10	18	25		60.4%	78.5	40.8	30.5	12.3	12.3	12.3

Source: Company, Angel Research

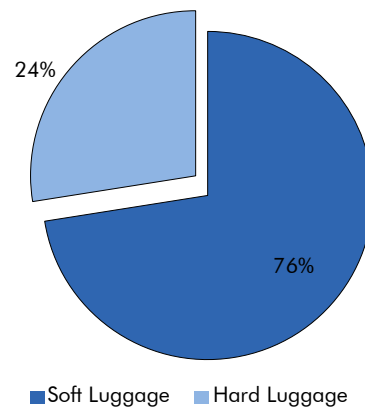
The downside risks to our estimates include

- 1) Increase in competition from unorganized as well organized players would impact overall growth of the company. Recently, Xiaomi, the aggressive Chinese player has entered this segment via the online channel.
- 2) VIP's 24% sales comes from hard luggage segment and any increase in input cost (most of the key raw material is polypropylene and aluminum) could negatively impact profitability if the price hike doesn't take place
- 3) Volatility in foreign currency fluctuation could impact the company's profitability (70% of VIP's revenue comes soft luggage segment which is largely imported from China). Recently the company has started procuring from Bangladesh to mitigate this risk. Bangladesh has the lower labour cost and doesn't attract import duty.

Company Background

VIP Industries Ltd (VIP) operates in Luggage, Bags & Accessories, and Furniture segments. The Company has a range of brands across luggage categories. The Company's brands include Carlton, VIP Bags, Skybags, Aristocrat, Alfa and Caprese. The Company's product range includes trolleys, rucksacks, backpacks, duffel bags, laptop bags, travel accessories, short haul essentials, soft uprights, vanity cases, hard suitcases, briefcases and uprights, among others. It has approximately 10000 retail outlets across India and with a network of over 1300 retailers across approximately 30 countries. The Company's subsidiaries include VIP Industries Bangladesh Private Limited and Blow Plast Retail Limited. VIP Industries Bangladesh Private Limited manufactures and markets luggage and bags.

Exhibit 11: Revenue break-up for VIP (FY2018)



Source: Company, Angel Research

Income statement

Y/E March (₹cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Total operating income	1,216	1,252	1,410	1,804	2,255
% chg	16.1	2.9	12.6	28.0	25.0
Total Expenditure	1,108	1,119	1,216	1,533	1,916
Raw Material	663	676	712	911	1,138
Personnel	126	140	159	189	237
Others Expenses	320	304	345	433	541
EBITDA	108	132	193	271	338
% chg	39.6	22.3	46.1	40.0	25.0
(% of Net Sales)	8.9	10.6	13.7	15.0	15.0
Depreciation	14	14	13	14	16
EBIT	94	119	181	257	323
% chg	56.8	26.3	52.0	42.1	25.7
(% of Net Sales)	7.7	9.5	12.8	14.2	14.3
Interest & other Charges	1	1	0	1	1
Other Income	2	8	9	11	13
(% of PBT)	2.4	6.0	4.9	4.2	4.0
Share in profit of Associates	-	-	-	-	-
Recurring PBT	95	126	190	267	335
% chg	45.2	32.1	50.9	41.0	25.5
Tax	29	40	63	88	111
(% of PBT)	30.1	32.2	33.1	33.0	33.0
PAT (reported)	66	85	127	179	225
Extraordinary Items	-	-	-	-	-
ADJ. PAT	66	85	127	179	225
% chg	52.7	28.2	48.8	41.3	25.5
(% of Net Sales)	5.5	6.8	9.0	9.9	10.0
Basic EPS (Rs)	4.7	6.0	9.0	12.7	15.9
Fully Diluted EPS (Rs)	4.7	6.0	9.0	12.7	15.9
% chg	52.7	27.9	49.2	41.3	25.5

Source: Company, Angel Research

Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	28	28	28	28	28
Reserves & Surplus	311	380	461	536	665
Shareholders' Funds	339	408	489	565	693
Minority Interest	-	-	-	-	-
Total Loans	14	-	-	-	-
Provisions and other NC liabilities		9	10	10	10
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	354	417	499	575	703
APPLICATION OF FUNDS					
Gross Block	279	284	314	354	394
Less: Acc. Depreciation	212	226	239	253	269
Net Block	67	59	75	101	125
Capital Work-in-Progress	1	0	3	3	3
Other non-current assets	-	25	29	29	29
Investments	0	68	71	71	71
Current Assets	515	452	590	705	884
Inventories	287	283	317	430	537
Sundry Debtors	149	121	177	226	282
Cash	8	11	24	(24)	(11)
Loans & Advances	45	7	4	5	6
Other Assets	25	31	69	69	69
Current liabilities	233	192	274	339	414
Net Current Assets	282	260	316	366	470
Deferred Tax Asset	4	5	5	5	5
Mis. Exp. not written off	-	-	-	-	-
Total Assets	354	417	499	575	703

Cashflow Statement

Y/E March (₹cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	95	125	190	267	335
Depreciation	14	14	13	14	16
Change in Working Capital	(30)	24	(43)	(127)	(90)
Interest / Dividend (Net)	1	1	0	1	1
Direct taxes paid	(27)	(40)	(63)	(88)	(111)
Others	0	0	0	0	0
Cash Flow from Operations	53	123	97	66	151
(Inc.)/ Dec. in Fixed Assets	(9)	(10)	(15)	(40)	(40)
(Inc.)/ Dec. in Investments	0	(67)	(4)	0	0
Cash Flow from Investing	(8)	(77)	(19)	(40)	(40)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	0	(14)	0	0	0
Dividend Paid (Incl. Tax)	(27)	(34)	(55)	(77)	(97)
Interest / Dividend (Net)	(1)	(1)	(0)	(1)	(1)
Cash Flow from Financing	(45)	(49)	(55)	(77)	(97)
Inc./(Dec.) in Cash	0	(3)	24	(51)	14
Opening Cash balances	5	5	3	27	(24)
Closing Cash balances	5	3	27	(24)	(11)

Key Ratios

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	98.2	76.8	51.5	36.5	29.0
P/CEPS	81.0	66.2	46.8	33.8	27.1
P/BV	19.2	16.0	13.3	11.6	9.4
Dividend yield (%)	0.4	0.5	0.6	1.2	1.5
EV/Sales	5.4	5.2	4.6	3.6	2.9
EV/EBITDA	60.4	48.7	33.3	23.9	19.1
EV / Total Assets	18.5	15.5	12.9	11.3	9.2
Per Share Data (Rs)					
EPS (Basic)	4.7	6.0	9.0	12.7	15.9
EPS (fully diluted)	4.7	6.0	9.0	12.7	15.9
Cash EPS	5.7	7.0	9.9	13.7	17.0
DPS	2.0	2.4	3.0	5.4	6.8
Book Value	24.0	28.9	34.6	40.0	49.0
Returns (%)					
ROCE	26.6	29.1	36.9	45.4	46.6
Angel ROIC (Pre-tax)	27.2	36.0	45.8	49.6	51.0
ROE	19.6	20.9	25.9	31.7	32.4
Turnover ratios (x)					
Asset Turnover (Gross Block)	4.4	4.4	4.5	5.1	5.7
Inventory / Sales (days)	86	87	87	87	87
Receivables (days)	45	35	46	46	46
Payables (days)	52	42	55	55	55
Working capital cycle (ex-cash) (days)	79	80	78	78	78

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement	VIP Industries
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)