

VIP Industries

Margin pressure was an unexpected disappointment

Strong growth in revenue: For Q3FY2019, VIP Industries (VIP) posted a strong yoy growth of 27% in revenue to ₹430 cr mainly led by 30-35% volume growth. This growth was above our expectation of 21%. The company is garnering market share from the unorganized market specially from backpacks and new categories which is driving such strong growth in its top line.

Margins were under pressure: OPM were down at 8.8% on yearly basis which has come down from the peak level of 18.6% reported in Q1FY2019. Margin pressure was seen mainly due to ~10% rupee depreciation against dollar and rise in import duty on finished goods. The company has not been able to completely pass on cost hike especially at the lower priced categories like backpacks and Aristocrat. Margin pressure is expected to continue in coming 1-2 quarters.

PAT fell by 12% yoy: Interest cost continued to remain very low at ₹0.7 cr. Depreciation increased to ₹4.4 cr mainly led by capex in its Bangladesh unit. Overall, PAT fell by 12% to ₹24 cr versus our expectation of 20% yoy growth.

Outlook and Valuation: While the growth in volume remains encouraging and is likely to sustain as the company is in sweet spot in a fast growing luggage industry. However, we have cut our margin assumption for next two years in view of competitive pricing pressure. Overall, we have cut our earnings estimates by ~10% for FY2019 and FY2020 and are expecting a CAGR of ~26/29% in revenue/ earnings over FY18-20E. The stock is trading at 33.1x our FY2020 earnings, post recent correction. **Looking at the near term margin pressure, we now recommend ACCUMULATE with a target price of ₹542 (35x rolled over on average of FY2020E and FY2021E EPS).**

Key Financials

| Y/E March (₹ cr) | FY2017 | FY2018 | FY2019E | FY2020E | FY2021E |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales | 1,252 | 1,410 | 1,804 | 2,255 | 2,751 |
| % chg | 2.9 | 12.6 | 28.0 | 25.0 | 22.0 |
| Net Profit | 85 | 127 | 161 | 209 | 255 |
| % chg | 28.2 | 48.8 | 26.8 | 30.3 | 21.7 |
| OPM (%) | 10.6 | 13.7 | 13.5 | 14.0 | 14.0 |
| EPS (Rs) | 6.0 | 9.0 | 11.4 | 14.8 | 18.0 |
| P/E (x) | 81.5 | 54.6 | 43.1 | 33.1 | 27.2 |
| P/BV (x) | 17.0 | 14.2 | 12.5 | 10.3 | 8.5 |
| RoE (%) | 20.9 | 25.9 | 29.0 | 31.1 | 31.1 |
| RoCE (%) | 29.1 | 36.9 | 41.4 | 44.5 | 44.9 |
| EV/Sales (x) | 5.5 | 4.8 | 3.8 | 3.1 | 2.5 |
| EV/EBITDA (x) | 51.7 | 35.3 | 28.3 | 21.8 | 17.8 |

Source: Company, Angel Research

Accumulate

| | |
|--------------|------|
| CMP | ₹490 |
| Target Price | ₹542 |

| | |
|-------------------|-----------|
| Investment Period | 12 Months |
|-------------------|-----------|

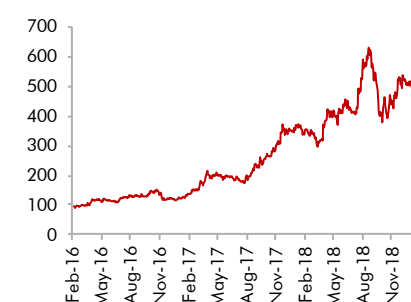
Stock Info

| | |
|--------------------|----------|
| Sector | Luggage |
| Market Cap (₹ cr) | 5,909 |
| Net Debt (₹ cr) | - |
| Beta | 1.4 |
| 52 Week High / Low | 645/283 |
| Avg. Daily Volume | 1,58,893 |
| Face Value (₹) | 2 |
| BSE Sensex | 36,546 |
| Nifty | 10,943 |
| Reuters Code | VIPI.BO |
| Bloomberg Code | VIP@IN |

Shareholding Pattern (%)

| | |
|-------------------------|------|
| Promoters | 53.5 |
| MF / Banks / Indian Fls | 14.7 |
| FII / NRIs / OCBs | 10.5 |
| Indian Public / Others | 21.3 |

Price chart



Source: capital line

Nidhi Agrawal

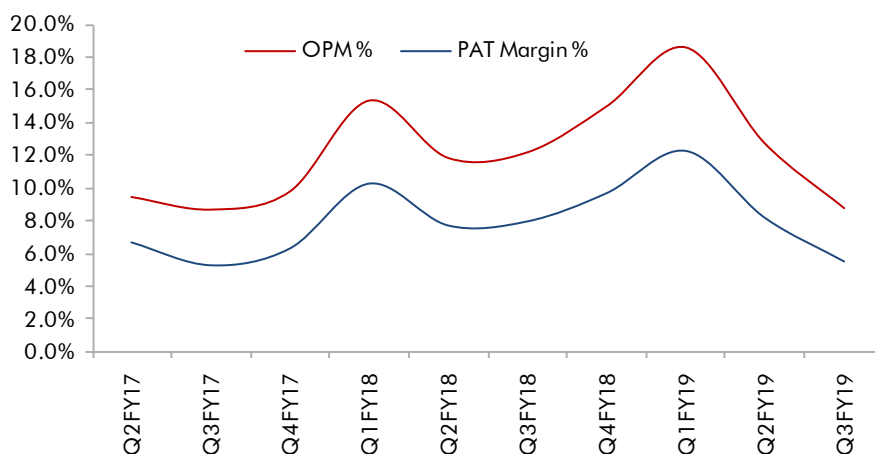
022-39357800 Ext: 6872

nidhi.agrawal@angelbroking.com

Exhibit 1: Quarterly results at a glance

| Conso- ₹ cr | Q3FY18 | Q3FY19 | YoY % | Q2FY19 | QoQ% | M9FY18 | M9FY19 | YoY % |
|----------------------------------|--------------|--------------|-------------|--------------|-------------|--------------|--------------|------------|
| Income from operation | 340 | 430 | 27% | 402 | 7% | 1,054 | 1,351 | 28% |
| Total Expenditure | 297 | 392 | 32% | 351 | 12% | 908 | 1,165 | 28% |
| Raw Material Consumed | 46 | 88 | 89% | 76 | 15% | 117 | 232 | 98% |
| Stock Adjustment | -17 | -73 | 338% | -54 | 34% | 43 | -85 | -296% |
| Purchase of Finished Goods | 136 | 215 | 58% | 180 | 19% | 383 | 541 | 41% |
| RM cost | 166 | 229 | 38% | 202 | 14% | 544 | 689 | 27% |
| Employee Expenses | 40 | 53 | 33% | 49 | 9% | 117 | 146 | 25% |
| Other Expenses | 91 | 110 | 20% | 100 | 10% | 247 | 330 | 34% |
| As a % of sales | | | | | | | | |
| Raw Material Consumed | 13.7% | 20.3% | | 19.0% | | 11.1% | 17.2% | |
| Stock Adjustment | -4.9% | -16.9% | | -13.5% | | 4.1% | -6.3% | |
| Purchase of Finished Goods | 40.2% | 49.9% | | 44.8% | | 36.4% | 40.1% | |
| RM cost | 49.0% | 53.3% | | 50.3% | | 51.6% | 51.0% | |
| Employee Expenses | 11.9% | 12.4% | | 12.2% | | 11.1% | 10.8% | |
| Other Expenses | 26.9% | 25.5% | | 24.8% | | 23.4% | 24.5% | |
| Total Expenditure | 297 | 392 | 32% | 351 | 12% | 908 | 1,165 | 28% |
| Operating profit | 41 | 38 | -8% | 51 | -26% | 139 | 185 | 33% |
| OPM % | 12.2% | 8.8% | -28% | 12.7% | -31% | 13.3% | 13.7% | |
| Other Income | 2 | 3 | 42% | 2 | 34% | 7 | 6 | -8% |
| Interest | | 1 | | 0 | | 0 | 1 | |
| PBDT | 43 | 40 | -8% | 53 | -25% | 146 | 191 | 31% |
| Depreciation | 3 | 4 | 30% | 4 | 13% | 9 | 12 | 28% |
| PBT | 40 | 35 | -11% | 49 | -28% | 136 | 179 | 31% |
| Reported Profit After Tax | 27 | 24 | -12% | 33 | -28% | 92 | 120 | 31% |
| Ratios | | | | | | | | |
| Tax rate % | 32.1% | 32.8% | | 33.3% | | 32.8% | 32.9% | |
| PAT Margin % | 8.0% | 5.5% | | 8.2% | | 8.8% | 8.9% | |

Source: Company

Exhibit 2: Margins off peak from Q1FY2019 level


Source: Company, Angel Research

Risks to our estimates

- Volatility in foreign currency could impact the company's profitability (75% of its revenue comes from soft luggage, which is imported from China).
- With closure of many luggage units in China (owing to pollution concerns), the surviving suppliers have started taking price hikes which is could put pressure on its margins, unless price hike is taken.
- Increase in competition from unorganized players would impact overall growth of the company
- VIP's 25% 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

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

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 |

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)