

Inventory Troubles Lead to Lower Gross Margins; Maintain HOLD
Est. Vs. Actual for Q4FY24: Revenue – **MISS**; EBITDA – **MISS**; PAT – **MISS**
Changes in Estimates post Q4FY24
FY25E/FY26E: Revenue: -8%/-11% EBITDA: -29%/-8% PAT: -37%/-4%

Recommendation Rationale

- **High Soft Luggage Inventory Problem:** VIP Industries has a total inventory of 900 Cr on its Balance Sheet, with 300 Cr allocated to Soft Luggage Inventory. The company has ceased manufacturing at its Soft Luggage facility in Bangladesh and significantly downsized its employee staff, resulting in operating deleverage and decreased gross margin contribution across the entire book. We anticipate that the current inventory will gradually liquidate over the next 2-3 quarters, exerting continued pressure on gross margins and leading to additional expenses associated with inventory holding. As a result, we expect EBITDA margins to remain lower in FY25.
- **Shift in Strategy; FY25 to be a transitional year:** Following challenges in top management last year, the new leadership, led by the former CFO, has initiated a strategic reshuffle at the company. This involves a focus on harnessing the value of the VIP brand and a targeted approach towards the premium segment. Additionally, it aims to optimize operations by emphasizing in-house manufacturing and leveraging its existing distribution network. An integral part of this strategy is to reduce inventory levels in FY25, which is expected to result in decreased debt levels, reduced working capital requirements, and lower warehousing expenses. VIP Industries aims to strengthen its market position by enhancing margins through premiumization, augmenting ASP, and introducing technologically enabled luggage solutions.

Sector Outlook: Cautiously Positive

Company Outlook & Guidance: VIP targets to grow faster than the Indian luggage Industry which is expected to grow at 12%, thereby intending to win back market share. With that, the management's focus is on targeting a much better premium mix, which will help in improving the company's margin profile, which it targets at 15% in FY25 and 18% by FY26.

Current Valuation: 30x FY26E (*unchanged*)

Current TP: Rs. 570(Earlier Rs. 590)

Recommendation: We believe that fundamental demand indicators like air traffic, passenger traffic, and hotel occupancy are all trending upward. However, the company has to prove itself amidst ongoing management transition and the change in top strategy with some internal turmoil. We maintain our HOLD rating on the stock with a revised Target Price of Rs. 570/share, implying an 8% upside from the Current Market Price (CMP).

Valuation & Recommendation: We have revised our estimates in light of management's commentary on the company's current scenario and the change in the corporate strategy. Consequently, we maintain our HOLD rating on the stock with a TP of Rs 570/share, valuing it at 30x FY26E. The TP implies an upside of 8% from the CMP.

Key Financials (Consolidated)

| (Rs Cr) | Q4FY24 | QoQ (%) | YoY (%) | Axis Est. | Variance |
|---------------|--------|---------|----------|-----------|----------|
| Net Sales | 516.3 | -6% | 15% | 572.3 | -9.8% |
| EBITDA | 7.8 | -85% | -88% | 68.1 | -88.5% |
| EBITDA Margin | 1.5% | -805bps | -1275bps | 11.9% | -1038bps |
| Net Profit | (23.9) | -434% | -661% | 23.4 | -202.3% |
| EPS (Rs) | (1.7) | -434.0% | -660.6% | 1.7 | -202.3% |

Source: Company, Axis Research

(CMP as of 10th May 2024)

| | |
|----------------------------|----------|
| CMP (Rs) | 528 |
| Upside /Downside (%) | 8% |
| High/Low (Rs) | 723/449 |
| Market cap (Cr) | 7,499 |
| Avg. daily vol. (1m) Shrs. | 4,63,307 |
| No. of shares (Cr) | 14.2 |

Shareholding (%)

| | Sept-23 | Dec-23 | Mar-24 |
|---------------|---------|--------|--------|
| Promoter | 51.2 | 51.8 | 51.8 |
| FII | 7.7 | 7.5 | 8.1 |
| DII | 14.7 | 12.8 | 12.7 |
| Retail Others | 26.3 | 27.9 | 27.5 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY24 | FY25E | FY26E |
|-----------------|-------|-------|-------|
| Net Sales | 2,245 | 2,514 | 2,816 |
| EBITDA | 194 | 314 | 465 |
| Net Profit | 54 | 150 | 270 |
| EPS (Rs) | 3.8 | 10.6 | 19.0 |
| PER (x) | 138.0 | 50.0 | 27.7 |
| P/BV (x) | 11.7 | 11.0 | 9.0 |
| EV/EBITDA (x) | 41.2 | 24.0 | 15.7 |
| ROE (%) | 8.3% | 18.1% | 24.6% |

Change in Estimates (%)

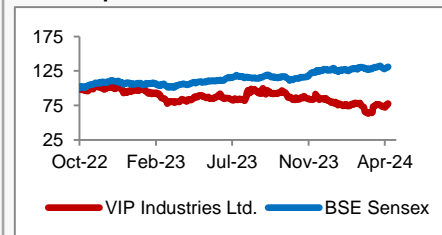
| Y/E Mar | FY25E | FY26E |
|---------|-------|-------|
| Sales | -8% | -11% |
| EBITDA | -29% | -8% |
| PAT | -37% | -4% |

ESG disclosure Score**

| | |
|-----------------------------|------|
| Environmental Disclosure | 0.9 |
| Social Disclosure Score | 13.6 |
| Governance Disclosure Score | 78.6 |
| Total ESG Disclosure Score | 31.1 |
| Sector Average | 35.5 |

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: AceEquity, Axis Securities

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Financial Performance

VIP Industries' Q4FY24 numbers missed our top-line estimates as well as reported a major miss on EBITDA and PAT. Revenue stood at 516 Cr, Up 15%/(6%) YoY/QoQ, missing our expectation by 10%. Gross margins declined by 790bps mainly on account of the reduced share of business from Bangladesh. EBITDA declined by 88%/85% YoY/QoQ to Rs 8 Cr, missing our estimate by 88%. Consolidated EBITDA margin drastically dropped to 1.5% (vs. 14.3% in Q4FY23), missing our estimates by 1,038bps. This was due to higher other expenses mainly on account of increased freight & accelerated spends on e-commerce. PAT stood at Rs (24) Cr, down by 434% QoQ was 202% below our estimate.

Outlook

We believe VIP Industries' new management has to prove and resolve some near-term hurdles in the coming quarters such as high inventory, supply chain constraints, and regaining lost market share. With the management's strategic planning towards brand building, correcting fundamentals of the business and developing a strong distribution network to support future growth, we believe the company's structural long-term growth story still remains intact.

Key Highlights

- **Stores Count:** During the quarter, the company opened 14 Exclusive Brand Outlets (EBOs), bringing the total count to 507, with a few loss-making outlets closed during the year. Its distribution strategy will focus on optimizing the performance of existing stores and leveraging current distribution network, rather than expanding further. In FY'25, the company will not add too many EBOs; instead, it is looking to add only around 35 to 40 EBOs.
- **Performance across channels:** Revenue grew by 15% YoY, with volume growth standing at 14%. E-commerce continued its growth trajectory with a YoY increase of 143% in Q4. Offline channels like General Trade and International Business picked up pace during the quarter, which had been lagging behind for the past nine months.
- **Inventory Level:** The company is strategically working towards maintaining inventory at a reasonable level. The inventory level as of year-end stood at Rs 900 Cr, which includes ~Rs 300 Cr of soft luggage inventory. Out of this Rs 300 Cr, it expects a reduction of Rs 200 Cr by FY25. The focus is on depleting soft luggage inventory within the next six months, i.e., by Sep'24. Therefore, Bangladesh will start producing soft luggage. Earlier, it had a capacity of 2.2 Lc of soft luggage upright in Bangladesh, which has been reduced to 75,000 units.
- **Tax Rate:** on a standalone basis, the company expects a normal tax rate of 25%.
- **Debt:** Net Debt as of 31st March stands at Rs 485 Cr, which the company is looking to reduce to ~Rs 250 Cr.
- **New Launches:** The company is focusing on releasing better products with a three-pronged strategy. Firstly, it involves lightweight products. Secondly, it entails utilizing technology, particularly tech-enabled luggage. Lastly, the focus will be on luxury products.
- **Go-To-Market (GTM) strategy:** The company is looking to extend its Go-To-Market (GTM) strategy for Backpacks and Duffle categories to better utilize its operations in Bangladesh. A significant improvement in the utilization of Bangladesh facilities is expected to begin from the third quarter onwards.

Key Risks to our Estimates and TP

- Weak demand
- Inability of the company to maintain its margins
- Loss of market share to competitors
- Any change in taxation policies and international duties with respect to Bangladesh and China.

Revenue Performance: Brands & Categories

| Brand-wise Saliency | FY23 | FY24 | Category-wise Saliency | FY23 | FY24 |
|-----------------------------------|------------|------------|------------------------|------|------|
| Carlton | 6% | 6% | Uprights | | |
| VIP | 23% | 21% | Hard Luggage | 49% | 52% |
| Skybags | 31% | 29% | Soft Luggage | 26% | 24% |
| Premium & Mass Premium | 60% | 56% | Duffel Bags | 8% | 8% |
| Aristocrat + Alfa | 36% | 40% | Backpacks | 13% | 12% |
| Caprese | 4% | 4% | Ladies Hand Bags | 4% | 4% |

Change in Estimates

| | Revised | | Old | | % Change | |
|------------|---------|-------|-------|-------|----------|-------|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Revenue | 2,514 | 2,816 | 2,721 | 3,156 | -8% | -11% |
| EBITDA | 314 | 465 | 444 | 505 | -29% | -8% |
| EBITDA (%) | 12.5% | 16.5% | 16.3% | 16.0% | -23% | 3% |
| PAT | 150 | 270 | 237 | 281 | -37% | -4% |
| EPS | 11 | 19 | 17 | 20 | -37% | -4% |

Source: Company, Axis Securities

Results Review

| | Q4FY23 | Q3FY24 | Q4FY24 Axis Est | Q4FY24 | YoY (%) | QoQ (%) | vs. Axis |
|-------------------|--------|--------|--------------------|--------|----------|---------|----------|
| Net Sales | 450.6 | 546.4 | 572.3 | 516.3 | 14.6% | -5.5% | -9.8% |
| Expenditure | | | | | | | |
| Net Raw Material | 189.9 | 241.4 | 257.5 | 257.9 | 35.8% | 6.8% | |
| Gross Profit | 260.7 | 305.0 | 314.8 | 258.5 | -0.9% | -15.3% | |
| Gross Margin (%) | 57.9 | 55.8 | 55.0 | 50.1 | -780bps | -576bps | -494bps |
| Employee Expenses | 58.1 | 69.0 | 69.2 | 68.3 | 17.4% | -1.1% | |
| Other Exp | 138.3 | 183.8 | 177.4 | 182.4 | 31.9% | -0.8% | |
| Total Expenditure | 386.3 | 494.2 | 504.2 | 508.5 | 31.6% | 2.9% | 0.9% |
| EBITDA | 64.3 | 52.2 | 68.1 | 7.8 | -87.8% | -85.0% | -88.5% |
| EBITDA Margin (%) | 14.27 | 9.56 | 11.90 | 1.52 | -1275bps | -805bps | -1038bps |
| Oth. Inc | 4.5 | 2.7 | 3.7 | 3.9 | -14.5% | 45.9% | |
| Interest | 8.4 | 15.2 | 15.0 | 16.7 | 98.9% | 10.4% | |
| Depreciation | 19.6 | 26.6 | 27.0 | 28.2 | 43.9% | 6.3% | |
| PBT | (6.4) | 13.2 | 29.8 | (33.3) | -617.9% | -352.1% | |
| Tax | (2.2) | 6.0 | 6.5 | (9.4) | -533.8% | -255.1% | |
| PAT | (4.3) | 7.1 | 23.4 | (23.9) | -660.6% | -434.0% | -202.3% |
| EPS | (0.3) | 0.5 | 1.7 | (1.7) | -660.6% | -434.0% | -202.3% |

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|--------------------------------|--------------|--------------|--------------|--------------|
| Total Net Sales | 2,082 | 2,245 | 2,514 | 2,816 |
| % Change | 61.5% | 7.8% | 12.0% | 12.0% |
| Total Raw Material Consumption | 1,019 | 1,064 | 1,207 | 1,309 |
| Staff costs | 236 | 270 | 314 | 338 |
| Other Expenditure | 514 | 718 | 679 | 704 |
| Total Expenditure | 1,769 | 2,051 | 2,200 | 2,351 |
| EBITDA | 314 | 194 | 314 | 465 |
| % Change | 117.3% | -38.3% | 62.4% | 47.8% |
| EBITDA Margin % | 15.1% | 8.6% | 12.5% | 16.5% |
| Depreciation | 73.7 | 99.5 | 100.7 | 104.7 |
| EBIT | 240 | 94 | 214 | 360 |
| % Change | 222.6% | -60.8% | 127.1% | 68.5% |
| EBIT Margin % | 11.5% | 4.2% | 8.5% | 12.8% |
| Interest | 28 | 55 | 32 | 14 |
| Other Income | 17 | 12 | 18 | 14 |
| (as % of PBT) | 9% | 15% | 9% | 4% |
| PBT | 197 | 77 | 200 | 361 |
| Tax | 44 | 22 | 50 | 90 |
| Tax Rate % | 22.5% | 29.1% | 25.0% | 25.0% |
| APAT | 152 | 54 | 150 | 270 |
| % Change | 127.6% | -64.4% | 175.8% | 80.5% |

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|--------------------------------------------------|--------------|--------------|--------------|--------------|
| Share Capital | 28 | 28 | 28 | 28 |
| Reserves & Surplus | 613 | 650 | 799 | 1,070 |
| Net Worth | 642 | 678 | 828 | 1,098 |
| Non-Current Liabilities | | | | |
| Long Term Borrowings | - | - | - | - |
| Lease Liabilities | 137 | 130 | 281 | 281 |
| Long Term Provisions | 13 | 16 | 17 | 19 |
| Total Non Current Liability | 154 | 148 | 299 | 301 |
| Current Liabilities | | | | |
| Short Term Borrowings | 123 | 181 | 533 | 263 |
| Trade Payables | 282 | 309 | 407 | 344 |
| Short Term Provisions | 12 | 11 | 14 | 14 |
| Other Current Liability | 55 | 74 | 73 | 97 |
| Total Current Liability | 517 | 626 | 1,090 | 688 |
| Total Liabilities | 671 | 774 | 1,389 | 989 |
| Total Equity & Liabilities | 1,230 | 1,415 | 2,067 | 1,817 |
| Application Of Funds | | | | |
| Property Plant & Equipment | 98 | 148 | 207 | 240 |
| Right of Use Assets | 163 | 157 | 321 | 296 |
| Financial Assets incl (Loans & Other Fin Assets) | 18 | 21 | 28 | 25 |
| Deferred Tax Asset (Net) | 34 | 45 | 49 | 12 |
| Total Non-Current Assets | 330 | 403 | 634 | 589 |
| Current Assets | | | | |
| Investments | 41 | 22 | 1 | 25 |
| Inventories | 518 | 587 | 916 | 654 |
| Trade Receivable | 219 | 255 | 328 | 296 |
| Other Current Assets | 95 | 100 | 127 | 50 |
| Total Current Assets | 900 | 1,012 | 1,432 | 1,227 |
| Total Assets | 1,230 | 1,415 | 2,067 | 1,817 |

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|-------------------------------------------------------|------------|-------------|-------------|-------------|
| PBT | 197 | 77 | 200 | 361 |
| Depreciation & Amortization | 74 | 99 | 101 | 105 |
| Provision for Taxes | 28 | 55 | 32 | 14 |
| Chg in Deferred tax | -2 | -2 | -1 | -1 |
| Chg in Working cap | -96 | -339 | 336 | -34 |
| Direct tax paid | -52 | -28 | -50 | -90 |
| Cash flow from operations | 175 | -132 | 587 | 324 |
| Chg in Gross Block | -107 | -100 | -20 | 8 |
| Chg in Investments | 20 | 23 | -24 | -3 |
| Chg in WIP | 2 | 1 | 0 | 0 |
| Cash flow from investing | -84 | -76 | -44 | 5 |
| Proceeds / (Repayment) of Short Term Borrowings (Net) | 58 | 352 | -270 | -150 |
| Repayment of Long Term Borrowings | 0 | 0 | 0 | 0 |
| Loans | -39 | -50 | -50 | -50 |
| Finance Cost paid | -16 | -33 | -32 | -14 |
| Dividends paid | -64 | -29 | 0 | 0 |
| Dividend Distribution Tax paid | 0 | 0 | 0 | 0 |
| Cash flow from financing | -75 | 218 | -440 | -221 |
| Chg in cash | 16 | 10 | 140 | 107 |
| Cash at start | 17 | 33 | 43 | 184 |
| Cash at end | 33 | 43 | 184 | 291 |

Source: Company, Axis Securities

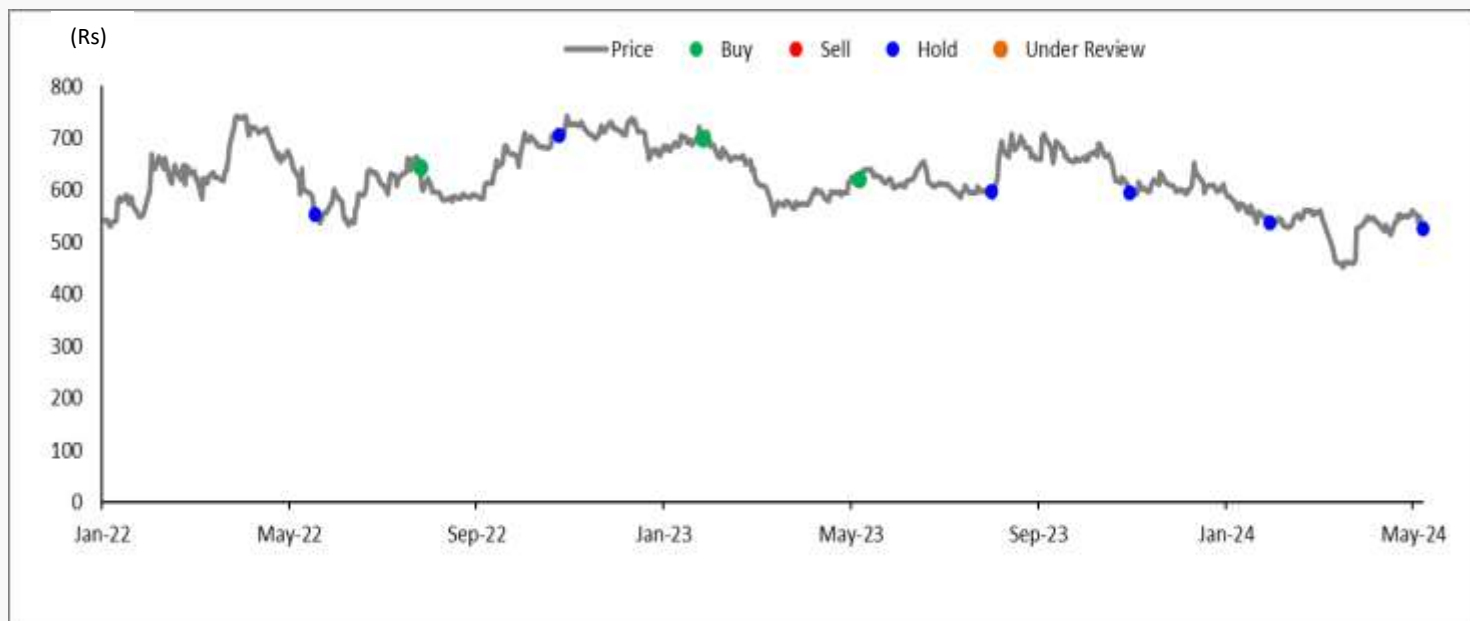
Ratio Analysis

(%)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|----------------------------|--------|--------|--------|-------|
| Growth (%) | | | | |
| Net Sales | 61.5% | 7.8% | 12.0% | 12.0% |
| EBITDA | 117.3% | -38.3% | 62.4% | 47.8% |
| APAT | 100.1% | -59.5% | 165.6% | 80.5% |
| Per Share Data (Rs) | | | | |
| Adj. EPS | 10.8 | 3.8 | 10.6 | 19.0 |
| BVPS | 39.5 | 45.3 | 47.9 | 58.4 |
| Profitability (%) | | | | |
| EBITDA Margin | 15.1% | 8.6% | 12.5% | 16.5% |
| Adj. PAT Margin | 6.7% | 2.5% | 6.0% | 9.6% |
| ROCE | 30.4% | 9.6% | 18.9% | 25.7% |
| ROE | 21.7% | 8.3% | 18.1% | 24.6% |
| ROIC | 32.7% | 10.4% | 23.3% | 33.3% |
| Valuations (X) | | | | |
| PER | 50.1 | 138.0 | 50.0 | 27.7 |
| P/BV | 13.6 | 11.7 | 11.0 | 9.0 |
| EV / EBITDA | 24.8 | 41.2 | 24.0 | 15.7 |
| EV / Net Sales | 3.7 | 3.5 | 3.0 | 2.6 |
| Turnover Days | | | | |
| Asset Turnover | 10.7 | 7.1 | 6.0 | 6.2 |
| Inventory days | 198.0 | 257.8 | 237.4 | 188.0 |
| Debtors days | 41.5 | 47.4 | 45.3 | 40.7 |
| Creditors days | 105.9 | 122.8 | 113.6 | 101.8 |
| Working Capital Days | 133.7 | 182.5 | 169.1 | 126.9 |
| Gearing Ratio | | | | |
| Total Debt to Equity | 0.2 | 0.7 | 0.1 | -0.2 |

Source: Company, Axis Securities

VIP Industries Price Chart and Recommendation History



| Date | Reco | TP | Research |
|-----------|------|-----|---------------|
| 19-May-22 | HOLD | 596 | Result Update |
| 27-Jul-22 | BUY | 770 | Result Update |
| 27-Oct-22 | HOLD | 750 | Result Update |
| 30-Jan-23 | BUY | 850 | Result Update |
| 10-May-23 | BUY | 730 | Result Update |
| 04-Aug-23 | HOLD | 625 | Result Update |
| 02-Nov-23 | HOLD | 600 | Result Update |
| 01-Feb-24 | HOLD | 590 | Result Update |
| 13-May-24 | HOLD | 570 | Result Update |
| | | | |

Source: Axis Securities

About the analyst



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AnalystBio: Prathamesh is CFA charter holder with over 7 years of experience in Equity Research.

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