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DEMOCRATIZING WEALTH CREATION

UPSTREAM PICK

October 2018

THINK DIFFERENT PROFIT MORE

Company Name	:	**VIP Industries Ltd.**
BSE Code	:	**507880**
Time Duration	:	**2 year**
CMP	:	**₹408.50** **(as on 04 October, 2018)**
Target Price	:	**₹690**

Our Upstream Pick for the month of October is VIP Industries Limited. It is a leading luggage maker in India offering a wide range of products in hard luggage (24% of revenue) and soft luggage (76% of revenue) segments. It is Asia's No.1 luggage manufacturer and has maintained more than 50% market share in the organised luggage industry. Its manufacturing facilities are located at Haridwar in Uttarakhand, Jalgaon, Nagpur and Nashik in Maharashtra and has a subsidiary in Bangladesh too. It also exports to the UK, Europe and Asia-Pacific.

We see this company as our Upstream Pick because despite the industry headwinds of rising raw material prices and currency fluctuations, the company has delivered strong performance led by volume growth and brand recognition. The shift in preference towards branded luggage has been advantageous to the company. The latest reduction in GST on luggage has added to its growth story. The travel and marriage seasons are the biggest growth drivers for the company.

Strong brand recognition

VIP has a better product line under various brands spread across various segments. Under the high-end or premium segment, it has well-known brands like VIP and Carlton. VIP and Carlton contribute 45% and 8%, respectively, towards the total revenue. Under the mid-segment, it has brands like Aristocrat and Skybags and Caprese brand for the ladies' handbags. Skybags brand generates 27% of the total revenue. While under the lower end segment, it has brand known Alfa. The remaining 20% of the revenue is generated from the Aristocrat, Alfa and Caprese brands.

Carlton brand is preferred by the sophisticated businessmen. VIP is a traditional brand and appeals to families. Skybags is the young brand, and popular with backpackers and Aristocrat is a value brand and is more economical. Alfa is the small-town brand and is economical. Caprese brand was introduced 5-6 years back and is gaining momentum due to higher demand from women. All the brands have been performing extremely well and has led to higher volume growth. Generally, backpacks are bought at higher frequency, while luggages are bought as per specific needs over 3-4 years. The new lightweight VIP bags introduced to adhere to airline luggage restrictions is bringing in revival for the brand.

Advertisement spending improving volumes

VIP has planned to invest Rs 80 crore towards advertisement and promotions of its brands for FY19. Some of the ace celebrities like Alia Bhatt, Hrithik Roshan, Varun Dhawan, Rohit Sharma have been roped in for promoting the brands like Carlton, VIP, Caprese, Aristocrat, Skybags. In Q1FY19, the company for the first time advertised all four main brands and on television too. Innovative marketing is leading to high volume growth. The hypermarket channel brings in the strongest growth for its products, while the e-commerce and general trade channels are the new options through which the company is increasing its sales base.

Reducing dependence on China for soft luggage

VIP Industries has a unique business model which allows the company to outsource a significant portion of soft luggage from China. The distribution, design and branding is carried out by VIP Industries, whereas the manufacturing part is outsourced to China. The outsourcing of significant portion of its products allows the company to run its operations maintaining an asset-light model. Now, it is focusing on increasing its own capacities and sourcing from India. It has set up a manufacturing plant in Bangladesh for manufacturing soft luggage. Currently, the Bangladesh facility forms a very small percentage of the total capacity. But, VIP intends to

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gradually increase the domestic capacity and reduce dependence on China over the next 5-10 years. The company's income from its Bangladesh subsidiary increased by 83% YoY from Rs 13.8 cr to Rs 25.2 cr in Q1FY19. The PAT was up by 25% from Rs 3.2 cr to Rs 4 cr.

GST – Boon for the organised sector

GST has proved to be a boon for the organised players like VIP. The shift from unorganised sector to organised sector has led the company to gain some additional market share. Earlier, the GST on luggage was at 28% till November 2017. Later, it was reduced to 18%. Thus, the company could pass on the benefit to the consumers.

Volumes offset hard luggage headwinds

Since the beginning of 2018, the company is facing some headwinds. For manufacturing of hard luggage (24% of revenue), the company mainly requires two major raw materials, namely, polypropylene and polycarbonate. The prices of these products are heading northwards since last few months. Also, the rupee depreciation, rise in crude oil prices, petrol, freight and appreciation of the Chinese yuan against the rupee might have a negative impact on the margins going forward. To mitigate such input price rise, the company may pass on the price hike to consumers. However, the robust growth in volumes due to high demand and strong brands would offset the rising input prices.

Macro factors boosting luggage industry

The demand for luggage depends on travel (everyday travel, business travel, leisure travel). The domestic air travel in particular at volume levels is around 20%. Air travel has picked up in the last decade and the regional connectivity measures of the government will only further accelerate the growth in travel. Airlines are running full and the load factor on the airlines is good. The introduction of GST has meant that the price difference between unbranded and branded has narrowed and that makes branded luggage more attractive. Bags and luggage are becoming status symbols as they are considered lifestyle products helping wider acceptance of fashionable and high-end luggage. Also, the trend that each member of the family is preferring to use separate luggage/bag is increasing which is adding to the growth in volumes.

Stellar Financial Performance

Historically, every year VIP Industries' first quarter has been strongest, led by increased travelling due to long summer vacations and wedding season. Comparatively, the company's Q1FY18 was low due to introduction of GST. The rates of GST have now been reduced from 28% to 18%. Hence, Q1FY19 is not directly comparable with Q1FY18. Yet on YoY basis, the company has delivered stellar performance in Q1FY19 led by volume growth. The revenue was up by 27% from Rs 407 cr to Rs 518 cr. The EBITDA grew by 54% YoY from Rs 63.6 cr to Rs 97.8 cr. and the EBITDA margin jumped from 15.6% to 18.9% due to better product mix and higher sales. The PAT too jumped by 55% YoY from Rs 41 cr to Rs 63.4 cr.

Valuation

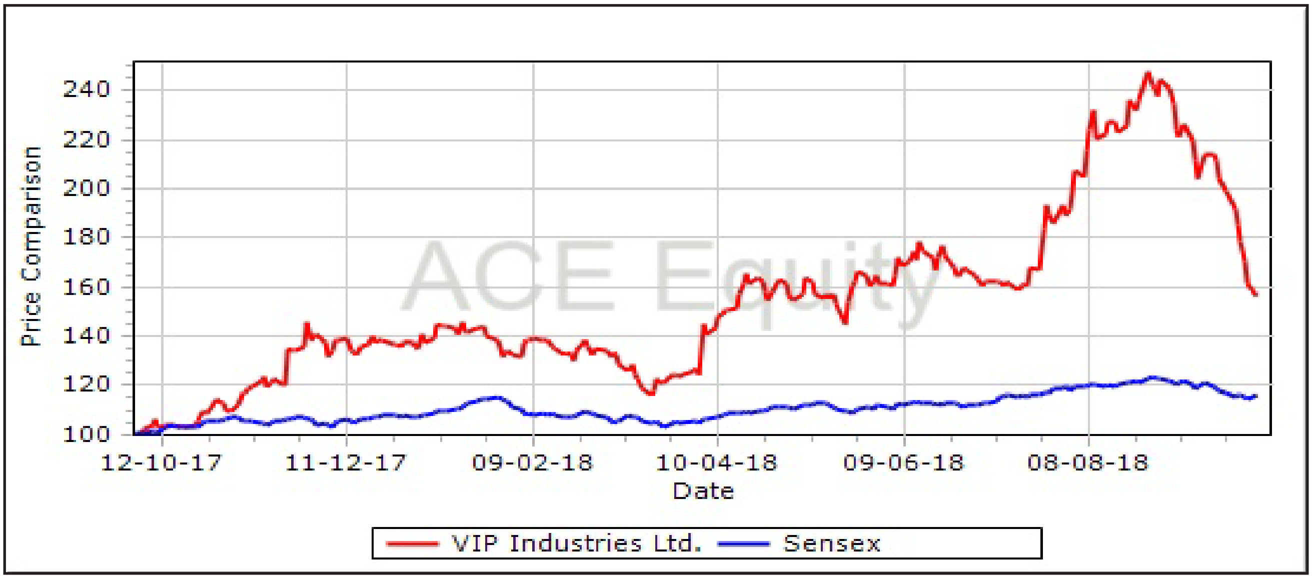
The company is trading at TTM P/E of 37.9x with TTM EPS of Rs 10.55. It has delivered high return ratios with ROE and ROCE of 28.3% and 42.8%, respectively, in FY18. It a debt-free company following asset-light model. The strong brand recognition, innovative marketing, reduction in GST rates and the rising demand due to higher travelling are leading to volume growth. We see a potential upside of 41% with target price of Rs 690 over a period of two years.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	1409.59	1251.54	1216.45	1047.69	972.82
Total Income	1419.30	1261.11	1219.13	1050.51	975.54
Total Expenditure	1214.52	1119.28	1106.61	968.76	890.54
PBIDT	204.78	141.83	112.52	81.75	85.00
PAT	126.75	85.21	66.46	46.59	57.64
Dividend %	150.00	120.00	100.00	75.00	85.00
Adj. EPS(Rs)	8.97	6.03	4.70	3.30	4.08

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	517.81	362.56	42.82	406.57	27.36
Total Expenditure	421.62	308.25	36.78	345.27	22.11
PBIDT (Excl OI)	96.19	54.31	77.11	61.30	56.92
PAT	63.35	35.05	80.74	40.98	54.59
PBIDTM% (Excl OI)	18.58	14.98	24.03	15.08	23.21
PBIDTM%	18.89	15.63	20.86	15.64	20.78
PATM%	12.23	9.67	26.47	10.08	21.33
Adj. EPS(Rs)	4.48	2.48	80.65	2.90	54.48



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