

DEEP DIVE — VIP INDUSTRIES





Listing NSE & BSE	Symbol VIPIND	Market Cap ₹35,258 m
Industry Luggage	Current Price ₹249.40	P/E 50.1 (2018-19)

Incorporated in 1968 VIP Industries Ltd. is Asia's largest luggage manufacturer and a market leader in India. It manufactures and sells luggage and accessories mainly across India but also in the Middle East, UK, USA, Germany, Spain and some select African and South East Asian countries.

- Products can be mainly categorised into soft and hard luggage which include ladies handbags, printed polycarbonate luggage products, soft uprights, vanity cases, hard suitcases, briefcases, trolleys, rucksacks, backpacks, duffel-bags, laptop bags, school bags, everyday travel accessories, and short haul products
- 6 brands, namely, V.I.P., Carlton, Skybags, Aristocrat, ALFA, Carlton offer a wide range of products and cover a wide range of customer bases
- More than 8000 retail outlets and a well developed network of retailers in 50 countries
- 2 segments, namely soft luggage and hard luggage. Soft luggage makes up for 72% of the revenues (2018-19)
- 2 manufacturing facilities in India, 5 subsidiaries of which 4 are manufacturing plants in Bangladesh
- Distribution channels include General Trade, CSD (Canteen Stores Department), Hypermarkets and E-commerce. Of these, hypermarkets and e-commerce channel are the strongest growing. CSD contributes to less than 20% of revenues
- Manufacturing is mainly done in China, India and Bangladesh. Bangladesh contributed the lowest in the past with China being the major contributor but the company is already moving most of it to Bangladesh as a direct consequence of COVID-19
- Promoters hold 53.46%, whereas institutions hold 18.37% (2019-20). Key investors include Rakesh Jhunjhunwala (5.31%)

Sources:

1. Annual Reports
2. Company Presentation - <https://www.bseindia.com/xml-data/corpfiling/AttachHis/cde853ce-d9d2-4c19-bc4b-95f19e149dec.pdf>
3. Concall Transcript - <http://vipindustries.co.in/resources/images/vip/pdf/Transcript%20Q4%20Earnings%20Call.pdf>
4. Yahoo Finance - <https://in.finance.yahoo.com/quote/VIPIND.NS/profile?p=VIPIND.NS>

All values in ₹ million unless otherwise stated



Valuation – No margin of safety but hard to price growth at this point in time

Certainty Moderate	Sensitivity High	Margin of Safety 0%
Implied P/R 2.0 (2018-19)	Implied P/BV 6.1(2018-19)	Implied P/E 25.7 (2018-19)

Under conservative forecast assumptions with moderate certainty the valuation of VIP industries is widely dispersed and in the range of ₹175 - ₹280, whereas, the weighted value is ₹250. At this price there is no margin of safety but given the sheer amount of uncertainty around the industry, the stance of the government towards COVID-19 and the pace at which business picks up this value can accordingly be revised. A fact to note here is that before COVID-19 crisis the company's shares were trading between the P/E multiples of 35-45 with a median P/E of 41. Fast forward to today and the current P/E is almost 40-50% lower. A similar trend can be found for P/BV and P/R multiples and thus, it could present an opportunity to accumulate the shares of this company as it may command a lofty premium as business returns to normal.

Summary – Long-term growth available at a fair valuation?

VIP Industries is a market leader in the Indian luggage industry led by a very capable and experienced management. Despite the hard hit of COVID-19 the industry remains well poised for growth. As normalcy is restored it can be safely assumed that there is going to be a rebound in the industry and a pickup in demand which will eventually capitalise on the growth that the luggage industry has to offer. The management has taken the necessary steps to position the company appropriately to deal with the crisis and is fully equipped to adjust the business as the situation evolves. While the intrinsic value may be between a wide range it does ask the question – is long-term growth available at a fair valuation and for how long or will the industry dynamics will be permanently impacted and the market is pricing the stock just right?

Sources:

1. Annual Reports
2. Own estimates

All values in ₹ million unless otherwise stated



Industry – Fast growing, oligopolistic organised market with VIP as the leader

- The Indian luggage market is expected to grow at a CAGR of about 11% from 2018-24 whereas the organised luggage market has more than doubled over 2013-18
- Within the market luggage dominates with about 47% of the share followed by handbags and backpacks in second and third place
- The mix within luggage is in favour of soft luggage over hard luggage with a split of 70:30
- Key macroeconomic factors that could contribute heavily to the market growth are an increase in disposable income, growth in the Indian tourism market (particularly domestic tourism with increasing penetration of air travel) and a considerable increase in spending on leisure travel
- The organised portion of the market has significant opportunities for growth given the introduction of GST and this market is of an oligopolistic nature with VIP being the market leader with a market share of 46%, Samsonite being second with a share of 35% and Safari Industries being third with a share of 17%
- All of these factors combined make a strong case for VIP to capitalise on the available opportunities and continue to be the market leader

Company – Strong balance sheet, high profit growth, vigilant management

- Low debt to equity ratio (15%) with a satisfactory current ratio (1.9) and high interest coverage ratio
- Consistent profit growth (28% CAGR) over the last five years (2015-19)
- Sustainable improvements in gross and operating margins over the same period leading to good return ratios
- Vigilant management at the helm adept at identifying key trends and focused on overcoming the shortcomings of the company
- Well defined strategy with the foresight to assess would-be obstacles and adapt quickly to changing business environment

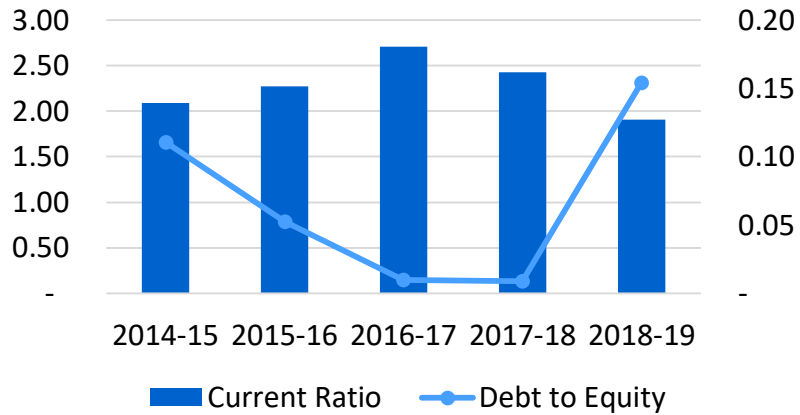
Sources:

1. Annual Reports
2. Industry Report - https://i.marketsmojo.com/pdf/research-report/202001/VIP.Ind_Axis_27012020.pdf
3. Concall Transcript - <http://vipindustries.co.in/resources/images/vip/pdf/Transcript%20Q4%20Earnings%20Call.pdf>

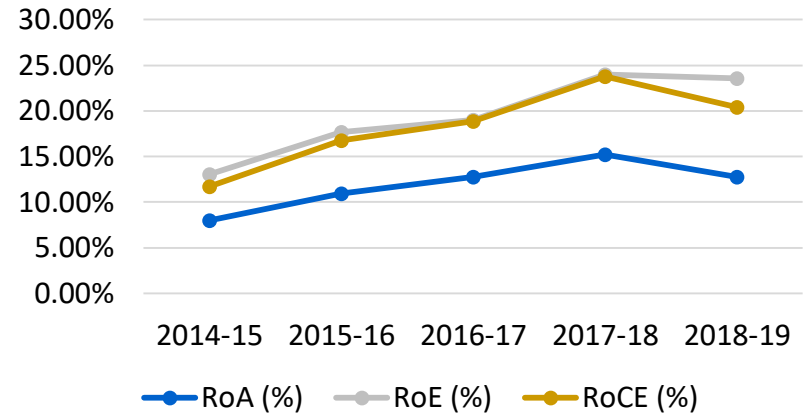
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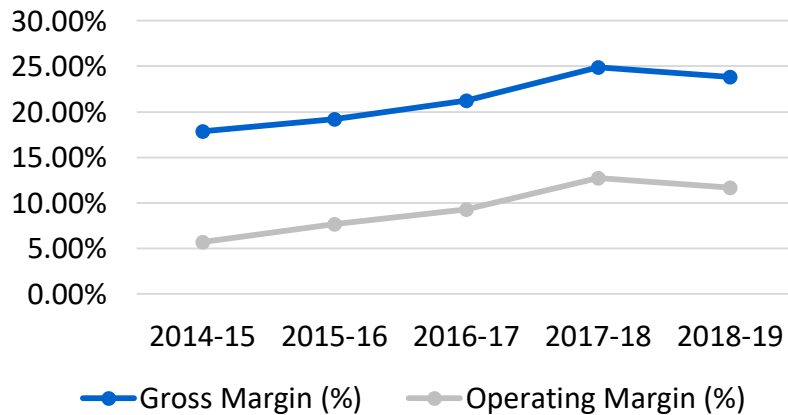
Financial Position



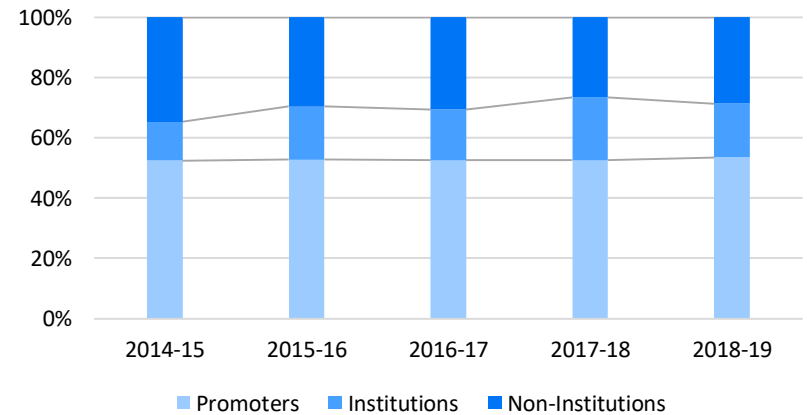
Return Ratios



Margins



Shareholding



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Investment Case – Industry tailwinds may take the market leader even higher

- **Strong industry tailwinds augur well for growth**
 - Indian luggage industry expected to grow at a rapid rate in the coming 5 years
 - Factors such as low air travel penetration, increase in disposable income, increased spends on leisure travel will be major contributors to this growth
 - Backpack and Handbag market is only at a nascent stage but fast-growing
 - Implementation of GST causing a shift in revenues from unorganised to organised market
- **Market leader in a fast growing industry, focused on improving the status quo**
 - VIP dominates the organised market with a broad range of products catering to a wide customer base
 - Strong brand recall synonymous with the Indian customer and an entrenched distribution network
 - Shift to low cost manufacturing by sourcing more products from Bangladesh and reducing direct dependency on China
 - Liquid balance sheet affording the room to adopt to sudden challenges such as COVID-19
- **Nimble and dedicated management**
 - Experienced management with deep industry expertise able to assess possible hindrances and take the necessary measures
 - Good track record of delivering on fulfilment of targeted strategy, improvements, policies etc.
 - Aware of current shortcomings with an aim of surmounting them in due time

Risks – COVID-19 definitely hurts, others not so much

- Travel and Tourism is one of the worst impacted industries due to COVID-19 and VIP is under the same umbrella
- Lockdown severely impacted Q4 2019-20 revenues and will also hugely impact Q1 2020-21 revenues
- Demand remains the main issue, so, Q2 and Q3 2020-21 will be key milestones as the economy opens up and the industry recovers
- Management has taken the necessary steps to ensure liquidity as well as cover other critical aspects of the business to ensure a steady comeback
- Other risks mainly include currency risk

Sources:

1. Annual Reports
2. Concall Transcript - <http://vipindustries.co.in/resources/images/vip/pdf/Transcript%20Q4%20Earnings%20Call.pdf>

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