

Rating: BUY | CMP: Rs386 | TP: Rs457

August 12, 2021

Q1FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current FY22E	Previous FY23E	Current FY22E	Previous FY23E
Rating	BUY		UNDER REVIEW	
Target Price	457			
Sales (Rs. m)	11,630	17,381	11,637	17,398
% Chng.	(0.1)	(0.1)		
EBITDA (Rs. m)	1,779	3,528	1,606	3,393
% Chng.	10.8	4.0		
EPS (Rs.)	5.0	14.1	3.5	13.4
% Chng.	44.2	4.7		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	17,144	6,186	11,630	17,381
EBITDA (Rs. m)	2,942	(653)	1,779	3,528
Margin (%)	17.2	(10.6)	15.3	20.3
PAT (Rs. m)	1,602	(975)	709	1,989
EPS (Rs.)	11.3	(6.9)	5.0	14.1
Gr. (%)	10.3	NA	NA	180.5
DPS (Rs.)	3.2	-	1.5	3.0
Yield (%)	0.8	-	0.4	0.8
RoE (%)	18.6	NA	12.7	27.5
RoCE (%)	32.3	NA	17.0	37.2
EV/Sales (x)	3.3	9.0	4.7	3.2
EV/EBITDA (x)	19.3	NA	30.8	15.6
PE (x)	34.0	NA	76.9	27.4
P/BV (x)	8.9	10.5	9.6	7.5

Key Data

	VIPI.BO VIP IN
52-W High / Low	Rs.438 / Rs.255
Sensex / Nifty	54,526 / 16,282
Market Cap	Rs.55bn/ \$ 732m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.472.91m

Shareholding Pattern (%)

Promoter's	53.46
Foreign	2.98
Domestic Institution	20.47
Public & Others	23.09
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.7)	7.8	48.5
Relative	(6.6)	1.9	4.6

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GM springs a positive surprise

Quick Pointers:

- GM improved to 50.9% on account of better product mix, lower discounts and price increase.
- Revenue & PAT loss for Bangladesh operations stood at ~Rs530mn/(Rs4mn) respectively in 1QFY22.

We upgrade VIP to a BUY (earlier under review) and increase our FY22/FY23 EPS estimates by 44%/5% respectively as demand recovery post 2nd wave is significantly better than our original anticipation (sequential top-line decline of just 15.1% in 1QFY22 despite lockdown-like restrictions). However, bigger surprise was GM expansion to 50.9% (almost similar to pre-COVID levels) resulting in significant earnings upgrade for FY22. In the entire last fiscal, VIP faced headwinds on margin side with a fear that demand recovery will be back-ended and restoring margins to pre-COVID levels can be a tall task given stiff competition & RM cost inflation. Nonetheless, as 1Q performance is noteworthy both on margin and demand recovery front we increase our target P/E multiple to 30x (earlier 28x) and arrive at a TP of Rs457 as well roll forward our valuation to Sep23. Further, we draw comfort from the fact that ~ 1/3rd of the planned new product launches will be from value/mass category where demand is expected to be strong in near to medium term evading concerns on significant market share loss.

Sequential top-line decline of just 15.1% despite 2nd wave: Top-line increased 411.3% YoY to Rs2,062mn (1QFY21 had a low base due to outright lockdown). Despite major sales channels bearing the brunt of localized lockdowns in 1QFY22, sequential fall in top-line was just 15.1% indicating no major slump in demand in spite of 2nd wave.

Gross margins jump to 50.9%: Gross profit increased 516.4% YoY to Rs1,050mn with margins of 50.9% (PLe of 41.0%) mainly on account of lower discounts, better product mix, and price increase.

EBITDA margin stood at 6.3%: EBITDA stood at Rs129mn (6.3% margin) versus a loss of Rs554mn in 1QFY21. Employee cost was flat while other expenses increased 58.3% YoY.

Manages PAT breakeven: After 4 quarters of losses, VIP managed PAT breakeven of Rs25mn in comparison to a loss of Rs513mn in 1QFY21. PAT margin stood at 1.2%.

Con-call highlights: 1) Roughly 1/3rd of the planned ~20-25 new product launches will be from value/mass category 2) Going ahead, ~90% of the demand will be catered through in-house production (India & Bangladesh) thereby eliminating imports from China. 3) ~50% of the cost saving of Rs1.8bn achieved in FY21 is sustainable in nature 4) Rs30mn charge was made towards exposure to Future Retail group 5) WC cycle is expected to improve by 30-40 days in long term 6) Traction in the e-com channel is highest since COVID-19 7) Soft/Hard Luggage constituted 61%/39% of total revenue in 1QFY22. 8) Caprese production to commence in Bangladesh soon. Key focus is on e-com channel to drive growth.

Exhibit 1: Q1FY22 Result Overview - Consolidated (Rs mn)

Y/e March	Q1FY22	Q1FY21	YoY gr.	Q4FY20	QoQ gr.
Net sales	2,062	403	411.3%	2,430	-15.1%
Total raw material cost	1,012	233	334.4%	1,367	-26.0%
As a % of sales	49.1%	57.7%		56.2%	
Gross Profit	1,050	170	516.4%	1,063	-1.2%
Gross margin	50.9%	42.3%		43.8%	
Employee expenses	389	387	0.4%	385	1.1%
As a % of sales	18.9%	96.1%		15.8%	
Other expenses	533	337	58.3%	647	-17.6%
As a % of sales	25.8%	83.5%		26.6%	
EBITDA	129	(554)	NM	32	302.8%
EBITDA margin	6.3%	NM		1.3%	
Depreciation	181	231	-22.0%	180	0.6%
EBIT	(52)	(785)	NM	(148)	NM
EBIT margin	NM	NM		NM	
Interest cost	74	65	12.4%	73	1.2%
Other income	144	177	-18.6%	163	-11.8%
PBT	18	(674)	NM	(57)	NM
Exceptional items	-	-		-	
Tax expenses	(7)	(161)	NM	(19)	NM
Tax rate	NM	NM		NM	
PAT	25	(513)	NM	(38)	NM
PAT margin	1.2%	NM		NM	
EPS (Rs)	0.2	(3.6)	NM	(0.3)	NM
Adjusted PAT	25	(513)	NM	(38)	NM
Adjusted PAT margin	1.2%	NM		NM	
Adjusted EPS (Rs)	0.2	(3.6)	NM	(0.3)	NM

Source: Company, PL

Exhibit 2: Sales & profitability profile of Bangladesh operations

Particulars (Rs mn)	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Sales	430	513	657	720	-	182	270	770	530	490	570	1,292	2,320	1,222	2,016	2,722
PAT	40	57	83	160	(103)	(24)	(10)	80	(4)	83	95	175	340	(57)	333	449
PAT margin	9.3%	11.1%	12.6%	22.2%	NM	NM	NM	10.4%	NM	16.9%	16.7%	13.5%	14.7%	NM	16.5%	16.5%
Bangladesh's sales a % of total sales	7.6%	12.4%	15.3%	23.1%	NM	17.7%	11.6%	31.7%	25.7%	3.9%	4.0%	7.2%	13.5%	19.8%	17.3%	15.7%
Standalone PAT#	860	302	266	(56)	(417)	(223)	(87)	(119)	35	764	1,186	1,288	887	(845)		
Standalone PAT margin	15.2%	7.3%	6.1%	NM	NM	NM	NM	NM	1.7%	6.1%	8.4%	7.2%	5.2%	NM		

Source: Company, PL # PAT for 1QFY20 is adjusted for exceptional loss of Rs485.0 mn

* Figures for 3QFY20 were not shared

Exhibit 3: Gross & EBITDA margin trend is volatile due to fluctuation in currency & raw material prices

Particulars	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20*	2QFY20*	3QFY20*	4QFY20*	1QFY21*	2QFY21*	3QFY21*	4QFY21*	1QFY22*
Gross margin	50.3%	50.8%	47.7%	47.5%	50.4%	53.3%	53.2%	57.6%	42.3%	38.7%	38.4%	43.8%	50.9%
EBITDA margin	18.6%	12.7%	8.8%	9.1%	19.2%	12.2%	11.8%	4.7%	NM	NM	3.5%	1.3%	6.3%

Source: Company, PL

*Ind-AS adjusted EBITDA margin

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	17,144	6,186	11,630	17,381
YoY gr. (%)	(3.9)	(63.9)	88.0	49.4
Cost of Goods Sold	8,059	3,662	6,071	8,343
Gross Profit	9,084	2,524	5,559	9,038
Margin (%)	53.0	40.8	47.8	52.0
Employee Cost	2,105	1,376	1,512	1,999
Other Expenses	4,037	1,801	2,268	3,511
EBITDA	2,942	(653)	1,779	3,528
YoY gr. (%)	30.9	NA	NA	98.3
Margin (%)	17.2	NA	15.3	20.3
Depreciation and Amortization	868	779	814	834
EBIT	2,074	(1,432)	965	2,694
Margin (%)	12.1	NA	8.3	15.5
Net Interest	230	298	262	191
Other Income	125	484	244	156
Profit Before Tax	1,484	(1,246)	948	2,659
Margin (%)	8.7	NA	8.2	15.3
Total Tax	367	(271)	239	670
Effective tax rate (%)	24.7	21.8	25.2	25.2
Profit after tax	1,117	(975)	709	1,989
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,602	(975)	709	1,989
YoY gr. (%)	10.3	NA	NA	180.5
Margin (%)	9.3	NA	6.1	11.4
Extra Ord. Income / (Exp)	(485)	-	-	-
Reported PAT	1,117	(975)	709	1,989
YoY gr. (%)	(23.1)	NA	NA	180.5
Margin (%)	6.5	NA	6.1	11.4
Other Comprehensive Income	20	20	10	-
Total Comprehensive Income	1,137	(955)	719	1,989
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	11.3	(6.9)	5.0	14.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	5,030	4,821	5,180	5,589
Tangibles	4,951	4,741	5,091	5,491
Intangibles	79	81	90	99
Acc: Dep / Amortization	1,324	1,939	2,754	3,588
Tangibles	1,284	1,881	2,679	3,497
Intangibles	40	58	75	91
Net fixed assets	3,706	2,882	2,427	2,002
Tangibles	3,667	2,860	2,412	1,994
Intangibles	39	22	15	7
Capital Work In Progress	28	23	23	23
Goodwill	-	-	-	-
Non-Current Investments	223	188	185	220
Net Deferred tax assets	67	329	329	431
Other Non-Current Assets	125	133	153	176
Current Assets				
Investments	404	1,400	700	490
Inventories	4,482	3,017	2,868	4,286
Trade receivables	2,674	1,485	1,784	2,714
Cash & Bank Balance	108	905	977	1,134
Other Current Assets	521	448	465	869
Total Assets	12,440	10,949	10,119	12,615
Equity				
Equity Share Capital	283	283	283	283
Other Equity	5,819	4,889	5,396	6,961
Total Networth	6,101	5,172	5,679	7,244
Non-Current Liabilities				
Long Term borrowings	1,799	1,611	1,611	1,611
Provisions	125	118	116	122
Other non current liabilities	1	1	1	2
Current Liabilities				
ST Debt / Current of LT Debt	895	1,924	387	387
Trade payables	2,913	1,540	1,753	2,476
Other current liabilities	571	555	540	729
Total Equity & Liabilities	12,440	10,949	10,119	12,615

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	1,484	(1,246)	948	2,659
Add. Depreciation	839	779	814	834
Add. Interest	230	298	262	191
Less Financial Other Income	125	484	244	156
Add. Other	233	(340)	-	-
Op. profit before WC changes	2,785	(509)	2,024	3,685
Net Changes-WC	539	709	(8)	(1,895)
Direct tax	(404)	(29)	(229)	(772)
Net cash from Op. activities	2,921	170	1,786	1,018
Capital expenditures	(443)	195	(350)	(400)
Interest / Dividend Income	2	23	-	-
Others	(410)	(973)	646	154
Net Cash from Invt. activities	(851)	(756)	296	(246)
Issue of share cap. / premium	-	-	-	-
Debt changes	(540)	1,215	(1,537)	-
Dividend paid	(861)	(4)	(212)	(424)
Interest paid	(27)	(61)	(262)	(191)
Others	(682)	(429)	-	-
Net cash from Fin. activities	(2,109)	721	(2,011)	(615)
Net change in cash	(40)	135	72	157
Free Cash Flow	2,468	79	1,436	618

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E	
Per Share(Rs)					
EPS		11.3	(6.9)	5.0	14.1
CEPS		17.5	(1.4)	10.8	20.0
BVPS		43.2	36.6	40.2	51.3
FCF		17.5	0.6	10.2	4.4
DPS		3.2	-	1.5	3.0
Return Ratio(%)					
RoCE		32.3	NA	17.0	37.2
ROIC		23.7	NA	17.6	28.0
RoE		18.6	NA	12.7	27.5
Balance Sheet					
Net Debt : Equity (x)		0.4	0.2	0.1	0.1
Net Working Capital (Days)		90	175	91	95
Valuation(x)					
PER		34.0	NA	76.9	27.4
P/B		8.9	10.5	9.6	7.5
P/CEPS		22.1	NA	35.8	19.3
EV/EBITDA		19.3	NA	30.8	15.6
EV/Sales		3.3	9.0	4.7	3.2
Dividend Yield (%)		0.8	-	0.4	0.8

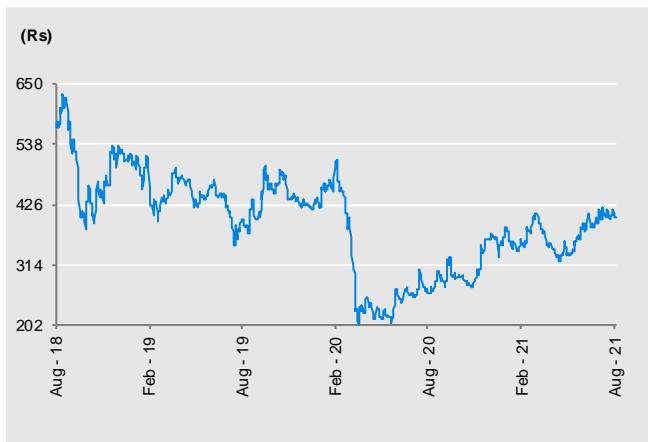
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	1,028	2,326	2,430	2,062
YoY gr. (%)	(75.1)	(46.0)	(22.0)	411.3
Raw Material Expenses	630	1,433	1,367	1,012
Gross Profit	398	894	1,063	1,050
Margin (%)	38.7	38.4	43.8	50.9
EBITDA	(222)	81	32	129
YoY gr. (%)	NA	NA	(90.0)	(123.3)
Margin (%)	NA	3.5	1.3	6.3
Depreciation / Depletion	186	182	180	181
EBIT	(408)	(101)	(148)	(52)
Margin (%)	NA	NA	NA	NA
Net Interest	78	82	73	74
Other Income	51	102	163	144
Profit before Tax	(435)	(80)	(57)	18
Margin (%)	NA	NA	NA	NA
Total Tax	(81)	(10)	(19)	(7)
Effective tax rate (%)	NA	NA	NA	NA
Profit after Tax	(354)	(70)	(38)	25
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(354)	(70)	(38)	25
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	NA	NA	1.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(354)	(70)	(38)	25
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	NA	NA	1.2
Other Comprehensive Income	(11)	12	6	10
Total Comprehensive Income	(365)	(59)	(31)	35
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	(2.5)	(0.5)	(0.3)	0.2

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-21	UR	-	418
2	26-May-21	Hold	376	366
3	07-Apr-21	Accumulate	374	342
4	30-Mar-21	Accumulate	376	350
5	05-Feb-21	Accumulate	376	355
6	11-Jan-21	Accumulate	384	378
7	24-Nov-20	Accumulate	384	337
8	10-Nov-20	Accumulate	333	292
9	09-Oct-20	Hold	288	291

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	193	183
3	Indian Railway Catering and Tourism Corporation	BUY	2,329	2,169
4	Inox Leisure	BUY	380	316
5	Music Broadcast	Hold	24	25
6	Navneet Education	Accumulate	92	98
7	PVR	BUY	1,625	1,400
8	S Chand and Company	BUY	146	113
9	V.I.P. Industries	UR	-	418
10	Zee Entertainment Enterprises	BUY	253	197

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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