



TM

VIP Industries

28 March 2024

New top team aiming for a recovery with a refreshed portfolio and an improved supply chain

COMPANY UPDATE

Sector: Consumer Discretionary Rating: NR

CMP: Rs 466

Target Price: NA

Stock Info

Sensex/Nifty	72,996/ 22,124
Bloomberg	VIP INDS IN
Equity shares (mn)	142
52-wk High/Low	Rs 723/449
Face value	Rs 2
M-Cap	Rs 66bn/USD 0.8bn
3-m Avg value	USD 4mn

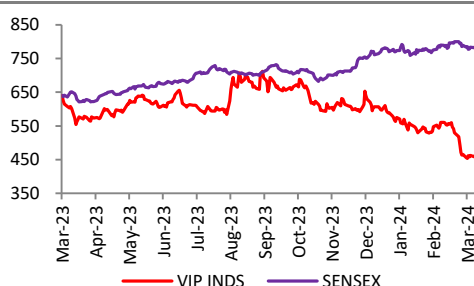
Financial Snapshot (Rs mn)

Y/E Mar	FY22	FY23	9MFY24
Sales	12,895	20,823	17,286
EBITDA	1,461	3,167	1,857
PAT	669	1,523	782
EPS (Rs)	4.7	10.7	5.5
PE (x)	157	53	
EV/EBITDA (x)	58	25	
P/BV (x)	19	13	
EV/Sales	8	4	
RoE (%)	13	26	
RoCE (%)	17	30	
NWC (days)	166	148	
Net gearing (x)	0.2	0.3	

Shareholding Pattern (%)

	Dec'23	Sep'23	Jun'23
Promoter	51.8	51.2	51.3
—Pledged	-	-	-
FII	7.5	7.8	9.0
DII	12.8	14.7	20.8
Others	27.9	26.3	18.9

Stock Performance (1-year)



We attended VIP Industries' analyst meet to understand the new MD's strategy for the company and also get a preview of the upcoming collections across the portfolio. The company is looking to arrest its market share decline and aiming for a significant margin improvement as well. Key highlights - 1) Company expects a double-digit revenue growth from 4QFY24 onwards and targets to grow at 15-20% CAGR in the medium-term (2-3% ahead of industry growth); 2) Company expects Skybags, VIP and Carlton to grow at a higher rate (c. 20-25%) compared to Aristocrat (c. 10%); 3) With an above industry growth rate company aims to see an improvement in market share from 1HFY25 onwards which was fallen to 37% from about 48% in the past 5 years; 4) Premium portfolio is expected to tap new higher price points, leading to an operating margin expansion to 15% from 2HFY25 which is expected to reach 20% in the next 3 years; 5) Other margin improvement drivers will be lower warehousing/freight costs and completion of the BCG project in 4QFY24 and 6) With improved brand spending and promotions, company believes it will reduce the current inventory level from c. Rs 9 bn to c. Rs 6 bn in the coming quarter. With strong sectoral tailwinds for the luggage space, a fresh and reenergized management team, a refreshed portfolio and an improved supply chain, the company is looking to regain its past glory, but execution remains the key monitorable especially in light of increased competitive intensity in the space. The stock is currently trading around 26.7x FY26 consensus earnings.

Rs 200 bn luggage market in India set for premiumization with marginal scope to gain further share from unorganized players

- The Rs 200 bn luggage market in India has seen branded players doing well with a 54% share currently (unorganized industry share likely to remain above 40% moving ahead with only a marginal shift possible).
- Favorable demographics such as rising middle class and its increased propensity to spend is likely to drive discretionary spends.
- The changing attitude of customers towards travel with rise in traveling has turned luggage into a lifestyle product.
- Moreover, the luggage industry has seen a shift in customer preference towards branded products.
- Factors such as rise in air passenger traffic, increase in railway infra spends, strong rebound in hospitality sector, rise in luggage purchases during weddings, international and domestic movement of students, promotional and personal gifting of luggage and rise in corporate and spiritual travel will contribute to growth of the industry.

Building blocks for VIP Industries future growth

- Company had a leadership refresh on account of which 50% of the current senior management is either new or handling a new portfolio.
- Company is focused towards premiumizing its portfolio and has on-boarded a multi award winning international designer. Company has realized that a lot of its products were not relevant to its customers and hence developed new products.

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- Post portfolio upgradation, the next priority for the company is to improve the supply chain.
- Company restructured Bangladesh manufacturing post depletion in soft luggage (SL) demand. Company converted 2.5 lakh SL capacity to duffle bags and backpacks and reduced staff by 4000. The apprentice cost had grown higher than skilled workers cost, hence the company had to lay off those workers a one go.
- Company is re-establishing customer connect and continuing on this path has completed two successful dealer distributor meets and conducted backpack roadshows - first in past 4 years. Currently the top 25 dealers are contributing 70% to the revenue. For dealers, company has kept higher incentives for Skybags, VIP and Carlton. Company gives margin of around 35-40% to franchise (depends on store area and rentals).
- 30% of the EBOs are owned while remaining operate on a franchise basis. The majority of the new stores will continue to be franchisee operated.
- VIP plans to open stores within a radius of 3km where Samsonite and Safari operate. In FY25, company plans to focus on expansion in top 14 cities.
- Company plans to operate stores which generate a throughput of atleast Rs 8 lakh.
- Company will term a product range to be successful only if it is able to sell atleast 5,000 units in a month. Company will discontinue such SKUs which do not meet the minimal target and have already discontinued c. 50 collections.
- Company's fill rates are seeing an improvement from 10-11 days earlier to 2-3 days now.
- More than 50% of the range in ecommerce is different from offline to avoid channel conflict. Company believes it will become a no.1 player in ecommerce in the next 3-4 months led by continuous investment.
- Currently the Institutional part of the business is working on a deal which is likely to add 5% of the total business if completed.
- Gross margin is likely to remain in the range of 55% as the company will invest majorly on brands. Brand spending for Caprese will be 11-12% while for VIP, Skybags and Aristocrat will be 7-8% (50:50 ATL & BTL ratio). 80% of ATL spends is through digital marketing.
- The company believes it can reduce the inventory from Rs 9 bn to Rs 6 bn by next quarter as majority of the inventory is less than one year old. There is a slowdown in soft luggage market on account of which the company has stopped manufacturing soft luggage (monthly demand of 1,00,000 units).
- Company's market share has reduced from 48% 5 years ago to 37% now. Hence the company targets to grow 2-3% ahead of industry growth rate to garner market share.
- Company plans to improve the forecasting by rationalizing the process and using AI tools. Company has also started the monthly sales performance review.
- Going ahead company expects to achieve a cost efficiency of 2-3%.
- Demand in the Southern part of India is strong with high growth compared to other regions.

- Capacity utilization currently stands at 90%. In the coming 6 months company is likely to come up with a new capacity in Patna.
- Attrition level stands at 12-15% for the company at brand level.

Establishing Carlton as a luxury brand

- Company has stepped up the style and design of Carlton bags with elevated imagery.
- The brand will continue to focus on business travel and moreover be a luxury brand for non-business purposes.
- The new Carlton premium collection has been sourced from China.
- Company plans to add 25 exclusive Carlton stores by end of FY25.

Exhibit 1: Carlton's new range



Source: Company, Systematix Institutional Research

VIP to be flagbearer brand for innovation

- Company wants a strong progression in the brand's image from just a family brand.
- Management has got various tech-related innovations in VIP.
- Company has got in one-of-a-kind wedding range (price of a set of 5 bags at Rs 50,000). Similarly multiple types of innovative bags have been launched by the company under VIP.

Exhibit 2: VIP's innovative tech enabled range catering to multiple occasions

Source: Company, Systematix Institutional Research

Skybags to be the Go-To upgrade brand with high aspirational value

- Company has launched multiple bags under Skybags with 3 major themes -
1) Light weight bags with different colors in hard and soft luggage, going ahead company aims to make more lighter bags (< 2 kgs); 2) Bags with different shapes with multiple compartments; 3) Expandable hard luggage innovation.
- The new luggage is in the range of Rs 5,000-10,000.
- These new bags are sourced from China and enjoy exclusivity for 3-5 years.

Exhibit 3: Skybags multiple new ranges leveling up the style quotient



Source: Company, Systematix Institutional Research

Aristocrat on a sustainable growth journey

- Company has launched new durable range under Aristocrat.
- The gym and duffle bags have been launched on ecommerce.
- Company expects this portfolio to keep growing at 10% CAGR.

Caprese focused on gaining market share and mind share

- Company has witnessed 3x growth in Caprese brand recall.
- The new launches fall in the price range of Rs 2,500-6,000.
- Company plans to open 50 exclusive stores for Caprese of which 30 are likely to be Kiosks.

Exhibit 4: Caprese expanding presence through exclusive stores and kiosks**EXCLUSIVE CAPRESE KIOSKS AND STORES****CAPRESE EXCLUSIVE STORE
SOUTH-EX, DELHI**

Source: Company, Systematix Institutional Research

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