SMART SYNC SERVICES

VIP Industries Q2FY21

Brief Company Introduction

VIP Industries Ltd is an Indian luggage maker which is the world's second largest and Asia's largest luggage maker. The company has more than 8,000 retail outlets across India and a network of retailers in 50 countries. VIP's products are imported in numerous other countries. It acquired United Kingdom luggage brand Carlton in 2004. It also owns the Aristocrat and Skybags brands which are very popular in India.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	118	414	-71.50%	58	103.45%	176	991	-82.24%
PBT	-30	36	-183.33%	-57	47.37%	-87	92	-194.57%
PAT	-22	30	-173.33%	-42	47.62%	-64	68	-194.12%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	108	415	-73.98%	58	86.21%	166	982	-83.10%
PBT	-44	41	-207.32%	-67	34.33%	-111	95	-216.84%
PAT	-35	33	-206.06%	-51	31.37%	-87	68	-227.94%

Detailed Results:

1. The results for the quarter were dismal with 72% & 74% YoY decline in standalone and consolidated revenues respectively.
2. The profits for the quarter were in negative territory in both standalone & consolidated terms.
3. The company saw good performance on QoQ basis in both standalone and consolidated terms.
4. Gross Margin for VIP after netting of other income was 42%. It was mainly due to higher discounts and a high mix of India produced goods sales rather than Bangladesh production.
5. Overall Expenses were down by 41% YoY. Employee cost was lower by 49% YoY & Other expenses were lower by 66% YoY.
6. The company has cash & cash equivalents of Rs 206 Cr as of 30th Sep 2020.
7. Net borrowings have risen to Rs 204 Cr from Rs 77 Cr last year.
8. Net debt however was near 0 vs Rs 60 Cr last year.

Investor Conference Call Highlights

1. Bangladesh operations started only with producing masks. The company is now also doing a tailoring operation in soft luggage in Bangladesh.
2. VIP is selling Rs 2-3 Cr worth of masks per month now.
3. The management expects the company to come back to pre-covid levels in at least 1-1.5 years. The industry should take 2-3 years to normalize.

4. Bangladesh operations are key going forward. Right now only 50% of Bangladesh's capacity is enough for domestic sales. The company is looking to start international sales from this location to reduce dependence on the domestic market.
5. Ecommerce sales have come up a lot since COVID-19 and have grown 40% YoY. This channel used to account for 7-10% of sales and now it counts for 27% of total sales for the company.
6. The company will be pursuing both the online market site sales from Flipkart & Amazon and its own direct to customer sales from the e-commerce mechanism.
7. In the long run, this channel should account for 20-25% of sales.
8. Although gross margins for e-commerce sales are expected to be lower than in-store sales, the company will specifically be looking to make products suited for the channel so that the overall margin profile is not affected too much.
9. Since all companies in the industry have high inventory levels, discounting has been greater than before in order to liquidate the stock that they have built up. This has led to a fall in average selling price. This is true for VIP as well.
10. The major cost initiatives for VIP have happened on the manpower and fixed EVO operations.
11. The recovery for the industry will be dependent on the type of recovery model that India will follow. If it follows the Western model of repeated small lockdowns, then recovery will be slower than when compared to the Asian model of recovery.
12. The mask business should provide revenues of Rs 18 Cr given the current run rate. The company is still looking to enter into other new segments but is not in any rush to do so and will do it in their own time.
13. The company is also looking to replace the imported handbags which they get from China with its own manufactured products from Bangladesh. This should provide a good boost to the handbag market.
14. The company will be able to get a better picture of the processing of the pending insurance claim of Rs 48 Cr in Q3.
15. The fixed cost saving for the year is estimated to be at Rs 180 Cr. Around 50% of this is expected to be sustainable.
16. The business demand from travel and wedding is almost at 50-50. The company expects the resurgence from wedding demand to come back next summer.
17. The company has a leading market share from weddings in Northern and Eastern India both through the flagship VIP and Aristocrat brands.
18. The company is also looking to set up its own manufacturing facility for soft luggage in Eastern India to reduce dependence on external vendors for soft luggage.
19. The management had stated that the company will be looking to sell lower-end products on e-commerce because the majority of the business in the channel is volume-driven at the lower end. The company can gain a big market share here as the unorganized sector cannot provide the volumes required for the channel.
20. Backpacks are still the fastest-growing segment for the company but its growth has slowed down as demand was driven primarily by schools and colleges. The volumes & growth for the category will all depend on how the schools open and how offices open. This category is also driven mainly in the lower end and through e-commerce sales. The company is best positioned to compete in this category due to its Bangladesh facility which has low labour cost.
21. The company has closed 100 out of its 250 exclusive branded outlets. Currently, 70-75% of its stores are open.

22. The company sold off the Haridwar plant as it could make the same products in its Nashik facility. The company had started running it as it was getting a tax break from it which expired in 2012 and now there isn't much of a margin differential between this plant and Nashik plant.
23. The company is only selling the land plot and building in Haridwar and it is shifting all of the machinery to the Nashik location. The company is looking to make around Rs 12 Cr of profit from the Sale of Rs 20-25 Cr.
24. The basic strategy of VIP in international sales will be to sell on price leveraging the very low-cost manufacturing operations in Bangladesh.

Analyst's View:

VIP has been the market leader in the soft and hard luggage segment in India for a long time now. The company is one of the biggest luggage manufacturers in the world by volume. However, the company and the industry have been facing tough times with sales contraction due to a fall in demand and disruption from COVID-19. The company is doing well to switch to Bangladesh for soft luggage procurement and is looking to enter into international operations by leveraging its low-cost manufacturing operations in Bangladesh. It has also seen good demand from the mask category and is looking to enter other adjacent segments. As per the management, the demand scenario at the moment is very uncertain and it will take at least 1-1.5 years to come back to pre-covid levels. It remains to be seen how fast demand comes back to the sector and how will the company fare in the meantime. Given the slowdown in travel and travel activities at the moment, demand-revival seems a distance away. Nonetheless, given the company's strong brand image and leadership position in the industry along with the resilient balance sheet of the company, VIP industries remains a pivotal mid-cap stock to watch out for.