VIP Industries Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	258	316	-18.35%	239	7.95%	673	1734	-61.19%
PBT	-16	-6	-166.67%	-9	-77.78%	-113	121	-193.4%
PAT	-12	-6	-100.00%	-9	-33.33%	-85	89	-195.51%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	259	316	-18.04%	242	7.02%	667	1727	-61.38%
PBT	-6	10	-160%	-8	25.00%	-125	148	-184%
PAT	-4	10	-140%	-7	42.86%	-97	112	-186.61%

Detailed Results:

1. The results for the quarter were down YoY with 18% YoY decline in standalone and consolidated revenues.
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 consolidated terms.
4. Gross Margin for VIP after netting of other income was 47%. It was mainly due to higher discounts and liquidation of old stocks.
5. EBITDA margin was at 8% vs 8% last year.
6. Overall Expenses were down by 29% YoY in Q4 & 52% YoY in FY21. Employee cost was lower by 8% YoY & Other expenses were lower by 38% YoY.
7. The company has cash & cash equivalents of Rs 231 Cr as of 31st Mar 2021.
8. Net borrowings were at Rs 154 Cr as of 31st Mar 2021.
9. Net debt was at 0.

Investor Conference Call Highlights

1. The polycarbonate ABS prices were almost 2.3x to 2.5x of pre-COVID level.
2. The management expects to sustain cost reductions of Rs 80-90 Cr at the annualized level.
3. The post-pandemic impact on consumer behaviour has been mainly focused on safety and security with demand for hard luggage greater than that for soft luggage.

4. The management has stated that margins will be dependent on the demand situation and how it comes back to pre-covid levels.
5. The management expects that this time the turnaround will be faster than the last downtime.
6. The management has stated that it doesn't expect any more cuts in employee strength going forward.
7. The company has not been affected by the disruption in Indo-China trade as most of the RM from China is being used in Bangladesh.
8. The management assured that the reason for VIP's gross margins being less than other listed peers is mainly on accounts of ongoing discounts and it shall come back to original levels as these discounts go away.
9. VIP has done 2 price increases in March and April in selective products due to the rise in import prices.
10. The company did Rs 171 Cr of cost savings in FY21 and the management states that around 50% of this savings should carry forward in normal times.
11. The management is confident of delivering normal sales for Rs 600-700 Cr in normalcy despite the reduction in stores and employees.
12. The value portfolio has seen a greater contribution in FY21 vs FY20. This was mainly due to pushing on the e-commerce channel and the low sales of other big brands like Skybags.
13. The management is confident of getting back lost market share and it will be pursuing it once normalcy returns to get it back to previous levels.
14. The E-commerce channel is showing good traction in tier 2 and 3 cities for VIP.
15. Other than the rise of the e-commerce channel, the management expects all other channels for the industry to stay at normal levels once the industry revives.
16. The short-term loans taken in FY21 will be repaid in July & Sep.
17. The management is confident that the Bangladesh plant is technically capable enough to make all the products that were being imported from China.
18. The management expects FY22 to be muted as well given that most of the Q1 (its best season) was under local lockdowns. Thus, it expects the recovery to growth by FY23 at the least.
19. In FY21, 17% of sales were from the ecommerce channel. The rise of this channel has also resulted in the rise of the value segment in the product mix as mostly low-priced products are sold here for the entire industry.
20. Q1 was much better than expected according to the management. This was mainly due to the stocking of enough inventory in both RM and finished goods. VIP is also looking at revamping its whole supply chain structure & inventory optimization.
21. The major focus for VIP remains the recovery of domestic business. It is indeed on the lookout for export opportunities but will not be aggressively pursuing them. The Middle East is the biggest market for VIP after India.

22. The company is planning capex of Rs 10-20 Cr for enhancing capacity in H2.

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 continued to see good sequential recovery in Q4 but Q1 was again hit hard with the 2nd wave of COVID-19. As per the management, it will take at least FY23 for the company and industry to come back to normalization. It remains to be seen how VIP continues to strengthen its internals in the meantime and develop the ecommerce channel which was small for them so far. 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.