VIP Industries Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	316.53	436.75	-27.53%	431.81	-26.70%	1738	1793.96	-3.12%
PBT	-5.55	28.8	-119.27%	34.31	-116.18%	121.12*	196.6	-38.39%
PAT	-5.56	18.36	-130.28%	26.55	-120.94%	88.73	128.81	-31.12%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	316.84	436.95	-27.49%	432.25	-26.70%	1730.82	1792.98	-3.47%
PBT	10.45	36.19	-71.12%	42.5	-75.41%	148.41*	214.94	-30.95%
PAT	9.52	25.28	-62.34%	34.21	-72.17%	111.73	145.27	-23.09%

*Contains an exceptional item of loss of Rs 48.5 Cr

Detailed Results:

1. The results for the quarter were dismal with a 27.5% YoY decline in standalone and consolidated revenues respectively.
2. The profits for the quarter grew into negative territory in standalone terms.
3. FY20 revenues were modest with a 3% YoY decline while profits fell a lot more at 31% YoY and 23% YoY in standalone and consolidated terms.
4. Gross margins improved in Q4 to 58% from 48% a year ago. This was mainly due to higher procurement from Bangladesh, improvement in Hard Luggage share, and reduction in RM costs.
5. COVID-19 impact in Q4 was revenue loss of Rs 126 Cr and profit loss of Rs 26 Cr.
6. In FY20, the company continued to improve EBITDA margins and saw it come to 18% vs 13% in FY19.
7. ROCE also improved in Q4 at 25% vs 22% a year ago.
8. The company had given out a dividend of Rs 3.2 per share in Feb.

Investor Conference Call Highlights

1. Despite the revenue loss in Q4 and Q1FY21, the company continues to remain resilient with enough liquidity in the books to tide over the current times.
2. The company stands in a good position to rise again once the industry revives as it is the best place in the industry to reduce dependence on China and also has a fully functional alternative in the Bangladesh facility.

3. The management is confident that for the current year, 100% of the company's procurement can come from Bangladesh as they already have enough stocks.
4. Since the majority of the company's sales are from the top 8 cities in India, it will indeed take time for revenues to recover as all of these are still in red zones.
5. The management admits that Q1 is going to be a washout for the company and it will depend on the rest of the year on how things will pan out.
6. The management expects travel patterns to become shorter and more localized with more land travel and less air travel. It also expects business travel to go down going forward as working remotely becomes more acceptable.
7. The target for the company this year is to achieving breakeven in the year despite the expected decline in revenue.
8. The company saw sales of only Rs 32 Cr in March.
9. The borrowings have been reduced to Rs 32 Cr from Rs 86 Cr in March last year.
10. The management has clarified that the company does not face any labour shortage in any of its plants and the only variables here is supply chain and consumer demand.
11. The company has more than adequate inventory with it as it had stocked up for April & May which are the bestselling months for the company. Since no sales took place in these 2 months, the company has enough stocks for the coming times until the company can get a handle on the situation.
12. The company has already instituted an almost 30% reduction in costs (excluding ad spending) including a reduction in salesforce, reducing rent, and has even foregone advertisements till now.
13. The management has stated that despite zero sales in April and May, there were some collections in these months and the company will not be able to provide financing help to its distributors.
14. The company has already taken aside some provisions to cover and mitigate the credit risk from distributors. It is around 8-8.5 Cr.
15. The management expects market share gain in the year to happen at the expense of other branded players instead of unbranded space.
16. The total inventory of the company is at Rs 451 Cr in Q4 which is based on costs and should yield a higher amount on sales.
17. Modern trade should have the least amount of inventory. On average all channels have around 60 days of inventory.
18. The company had tripled capacity in Bangladesh and it could cover 55% of the company's normal annual requirements.
19. 90% of raw materials in the Bangladesh plant comes from China and there are no supply disruptions here.
20. The management states that it would like that all of the procurement for the company comes from Bangladesh but there are still some particular product requirements that are currently only available from China and the company shall work to develop these as well in Bangladesh.
21. The management expects the demand from weddings to come back in Q3 after monsoons are over.
22. The claim for the warehouse from Q1 last year should be done in FY21.
23. The company has already applied for the rent waiver in more than 60% of its stores for the lockdown. The company has not gotten any confirmation on this from their mall stores.
24. The management does not expect any danger of inventory pileup as it will start manufacturing once orders come in after channel inventory gets cleared.
25. In India, 50% of the workforce is contractual.

26. The mix between soft and hard luggage has been the same at 70-30. Backpack season is expected to come back once schools and educational institutions start in a few months.
27. The market share in general trade is larger than in modern trade.
28. The management does not expect to make any CAPEX in the Bangladesh plant to expand capacity as the current capacity is expected to be sufficient to cover the company's expected sales volumes in FY21.
29. Another goal for the company is to achieve market leadership in the e-commerce channel.
30. The new margins are sustainable in a normalized situation without any price wars.
31. The company has 250 company-owned stores, all of which the company rents, and the company is expected to close 50-100 of these stores.
32. Around 5-15% of industry sales are from e-commerce. The management expects this number to rise to 30% in the next few years.

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. 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 to reduce costs while acknowledging that the sales environment going forward will be tough in the short term. It remains to be seen how fast demand comes back to the sector and how will the fast-rising segment of backpacks will fare in the coming months. 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.

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