VIP Industries Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	240	432	-44.44%	116	106.90%	415	1423	-70.84%
PBT	-9	34	-126.47%	-30	70.00%	-97	127	-176.38%
PAT	-9	27	-133.33%	-22	59.09%	-73	94	-177.66%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	243	432	-43.75%	108	125.00%	408	1414	-71.15%
PBT	-8	43	-119%	-44	81.82%	-119	138	-186.23%
PAT	-7	34	-121%	-35	80.00%	-94	102	-192.16%

Detailed Results:

1. The results for the quarter were down YoY with 44% 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 both standalone and consolidated terms.
4. Gross Margin for VIP after netting of other income was 41%. It was mainly due to higher discounts and a high mix of India produced goods sales rather than Bangladesh production.
5. EBITDA margin was at 8% vs 16% last year.
6. Overall Expenses were down by 49% YoY. Employee cost was lower by 46% YoY & Other expenses were lower by 51% YoY.
7. The company has cash & cash equivalents of Rs 219 Cr as of 31st Dec 2020.
8. Net borrowings were at Rs 148 Cr as of 31st Dec 2020.
9. Net debt was at 0.

Investor Conference Call Highlights

1. The company has appointed Mr. Anindya Dutta as Managing Director as of 1st Feb 2021.
2. As mentioned above, gross margins have remained flat QoQ due to continued discounts. The management expects EBITDA margins to fully reflect production from Bangladesh entirely by FY23.

3. The major comeback in demand is mainly due to air travel slowly coming back to normal. The demand will have boosted additionally in Q1 next year when wedding season comes back.
4. Overall inventory is in the range of INR 300 Cr. Old inventory is expected to be cleared soon and production from both Nashik and Bangladesh plants is expected to hit markets in Q1.
5. The management has stated that fixed costs will remain at current levels of Rs 25 Cr per quarter for the near future.
6. The company has stopped importing finished goods from China and is only dependent on raw materials from there.
7. The management has stated that the new MD's experience in international markets should prove vital in the company's quest to revive and expand its export presence.
8. The company has a lot of inventory in backpacks and it should be able to meet any upswing in demand once all educational institutions in India open up.
9. The gross margins are expected to rise slowly as competitive intensity will be there in the industry as everyone is sitting on a lot of inventory.
10. The management has stated that VIP has had cost savings of Rs 180 Cr in the year so far. Around 50% of this will come back in time while 50% is permanent saving.
11. The general trade channel is still going slow while all others are in line now with last year.
12. Ecommerce is doing well for VIP with more than 20% revenue contribution. But this is expected to drop once the general trade channel gets back to normal.
13. There will a lead time of 3-6 months for increasing capacity at the Bangladesh plant. It will be small enough to be able to be funded by internal funds.
14. The bulk segment in backpacks is schools.
15. The company has seen collections on its receivables from all vendors except Big Bazaar. The amount outstanding from Big Bazaar is Rs 35 Cr. VIP has started receiving some amounts from it from Jan onwards.
16. RM prices have gone up in the last 9M period and are expected to come down going forward.
17. The cost of the product from Bangladesh is 15% less than from China.
18. The management has stated that although corporate travel is expected to go down a lot due to rise of work from home culture, the corporate gifting demand should remain intact.
19. The long term borrowings are expected to mature in July and August and are expected to be paid in full.
20. The company has not added any new dealers in FY21.
21. The payment to the Bangladesh plant is made in dollars and thus there is some amount of forex risk here.
22. The company should be back to a quarterly revenue rate of Rs 400 Cr in Q1FY22 if recovery momentum does not weaken.

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 saw good sequential recovery in Q3 and is expecting to get back to its quarterly run rate of Rs 400 Cr by Q1FY22. As per the management, the competitive scenario at the moment remains very intense as all industry players are sitting on a lot of stock and gross margins may 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.

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