

VIP Industries Ltd (VIP)

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
459	555	20.9%	567 / 342	64907

Key Highlights:

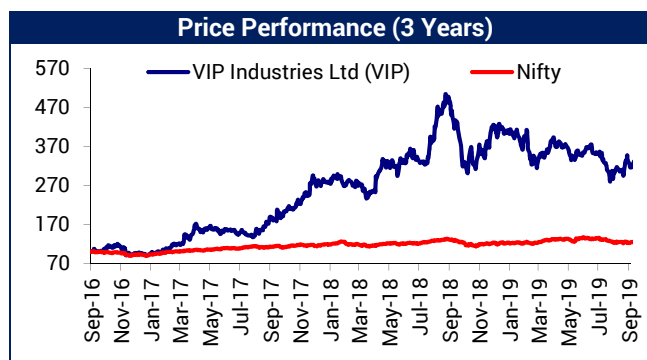
- VIP Industries reported strong topline growth of ~27% in FY19 amidst strong consumer demand, stabilisation of the GST rate at 18%, wider acceptance of fashionable and high-end luggage, consumer upgradation from un-branded to branded luggage and personalisation of luggage.
- However, depreciating rupee, volatile crude prices impacted the demand and profitability. The demand was impacted by slowdown in air-travel.
- In categories, polycarbonate luggage and duffel/duffel trolleys were important growth drivers in FY19.
- The Hypermarket channel continues to witness the strongest growth amongst channels. New product introductions in brand V.I.P was widely accepted by consumers for their contemporary designs and faith of consumers on the brand for its quality led to a very high growth in the brand
- In sales and distribution, VIP has about 1,000 dealers and 100 distributors (reaching 1,000 retailers), and 250 exclusive brand outlets, 250 franchisees and 1,000 modern trade outlets. The total point of sales are about 11,000
- VIP has been continuously focusing on strong brand visibility of its products. The company's brands include Carlton, VIP Bags, Skybags, Aristocrat, Alfa and Caprese. Historically, the company has been spending around 5-6% (percentage of sales) on ad spends to increase its brand visibility and we expect the trend to continue over FY19 to FY21E.
- Due to increasing labour costs and other reasons such as strengthening of the Yuan vs. INR, the company decided to reduce dependency on China in the long run and has setup a manufacturing facility in Bangladesh through its wholly owned subsidiary for manufacturing soft luggage.
- VIP is currently looking at expanding its footprint in newer geographies. Currently, it exports to countries such as UK, Europe, UAE, Qatar, Kuwait and the Asia Pacific.
- For VIP, we estimate situation to remain strong. We continue to estimate a revenue CAGR of 11% and earnings CAGR of 24% over FY19 to FY21E with strong operating margins and return ratios. Recommend BUY with a TP of Rs 555 at 37x FY21E earnings.

Financials (Rs mn)*	FY19	FY20E	FY21E
Sales	17,847	19,482	21,819
Growth (%)	26.6	9.2	12.0
EBITDA	2,137	2,570	2,902
EBITDA margin (%)	12.0	13.2	13.3
PBT	2,078	2,512	2,844
Net profit	1,391	1,879	2,127
Adjusted EPS (Rs)	9.8	13.3	15.0
Growth (%)	8.9	35.1	13.2
P/E (x)	46.7	34.6	30.6
BV (Rs/share)	39.6	48.0	57.6
EV/EBITDA	27.3	22.8	20.2
ROE (%)	24.8	27.7	26.1
ROCE (%)	35.5	35.5	33.6
Dividend payout (%)	43.1	36.4	36.2

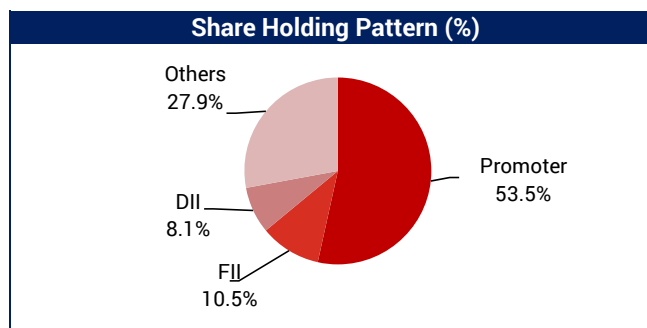
Source: Kotak Securities - Private Client Research *Standalone

Financials (Rs mn)*	1QFY19	1QFY20	% Chg
Revenues	5,178	5,642	9.0
EBITDA	911	1,251	37.3
EBITDA Margin (%)	17.6%	22.2%	
PAT	599	833	39.1
PAT Margin (%)	11.6%	14.8%	

Source: Kotak Securities - Private Client Research *Standalone



Source: Bloomberg



Source: Bloomberg

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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