

## How does our one year outlook change?

VIP Industries (VIP IN) reported a tepid revenue growth of ~6% in 1QFY17 which however was offset by healthy operating profitability. We understand that a lacklustre marriage season affected growth with volumes growing by ~3% during the quarter. Despite exchange rate volatility affecting gross margins, reduction in freight and discounts led to ~150bps EBITDA margin expansion in 1QFY17. In the absence of Haj order this year, our revenue estimates have been tapered down; while with margin expansion expected to be sustained, our PAT numbers have marginally been upgraded. With consumption uptick being witnessed across channels, supported by upcoming festive season and healthy air-passenger traffic growth, we believe VIP IN would clock a double digit growth for 9MFY17 alongside healthy margin expansion. With the next wave of consumption spending expected to be focussed around discretionary offerings, we believe VIP IN stands at a favourable position to benefit from this trend on a long term basis. We retain our Buy rating on the stock with a revised TP of Rs.147 (21x FY18 E EPS).

- VIP IN's three new age brands viz. Carlton, Skybags and Caprese continue to sustain their healthy growth momentum aided by healthy ad spends. However, with traditional luggage offtakes not witnessing any revival, flagship VIP and value segment Alfa brand sales remained under pressure.

- As witnessed over the last many quarters, general trade (dealer channel) sales significantly declined with the structural trend of consumers migrating to modern trade/hypermarkets/e-commerce channels becoming more pronounced. While VIP IN maintained its market share in the CSD channel we understand the management continues to take steps to regain past market leadership in the channel.

## How does our 3 year Outlook change?

Led by increase in number of airline passengers and Indian consumers' innate need to migrate towards branded goods, the oligopolistic organized luggage market in India is expected to witness better traction in long term. We believe VIP, the market leader led by its strong products, brands and distribution moat would be a beneficiary of the macro economic revival leading to healthy growth for the company. Competitive intensity continue to inch upwards, however VIP having straddled brands across the pricing matrix and aggressively promoting and rediscovering its brands should sustain market share in medium term. Strengthening rupee and lower polymer prices can impact margins positively.

1QFY17 Update				August 12 <sup>th</sup> , 2016	
Promoters	52.7			Bloomberg	VIP IN
Institutions	19.3			Shares o/s	141mn
Public	28.0			Market Cap	Rs. 18bn
	1m	3m	12m	52-wk High-Low	Rs. 141-71
VIP	2%	9%	45%	3m Avg. Daily Vol	Rs. 58mn
Sensex	0%	8%	1%	Index	BSE 500
BSE DISC	4%	12%	11%		

## Key estimate revision

	FY17E			FY18E		
	Old	New	Change	Old	New	Change
Revenues	13,484	12,791	-5%	15,433	14,639	-5%
EBITDA	1,241	1,280	3%	1,449	1,533	6%
Margin (%)	9.2%	10.0%	80bps	9.4%	10.5%	108bps
PAT	770	797	4%	922	982	7%
EPS (Rs.)	5.5	5.6	4%	6.5	6.9	7%

All figures in Rs. mn, except EPS, which is in Rs.

## Financial summary

Year	Sales (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	PE (x)	ROE (%)
FY14	9,728	803	462	3.3	38.8	17.0%
FY15	10,477	775	435	3.1	41.6	14.7%
FY16	12,165	1,082	665	4.7	27.2	20.6%
FY17E	12,791	1,280	797	5.6	22.7	20.6%
FY18E	14,639	1,553	982	6.9	18.4	20.8%

## Quarterly Financial Results

Rs. mn\Period	30-Jun-16	30-Jun-15	YoY Growth	31-Mar-16	QoQ Growth
<b>Revenues</b>	<b>3,752</b>	<b>3,544</b>	<b>6%</b>	<b>2,753</b>	<b>36%</b>
Raw materials	2,083	1,958	6%	1,471	42%
Employee cost	320	290	10%	299	7%
Other expenditure	877	903	-3%	783	12%
Total Operating Cost	3,279	3,151	4%	2,553	28%
<b>EBITDA</b>	<b>472</b>	<b>393</b>	<b>20%</b>	<b>200</b>	<b>137%</b>
EBITDA margins	12.6%	11.1%	149bps	7.2%	534bps
Depreciation	33	31	5%	28	16%
Other income	6	5	37%	6	-2%
EBIT	446	367	22%	178	151%
Interest	1	5	-83%	1	-33%
PBT	445	362	23%	176	152%
Tax	155	111	39%	63	147%
Effective tax rate	34.9%	30.8%		19.5%	
PAT	290	251	16%	114	155%
<b>Adj PAT</b>	<b>290</b>	<b>251</b>	<b>16%</b>	<b>114</b>	<b>155%</b>
PAT margin	7.7%	7.1%	64bps	4.1%	360bps
EPS (Rs. )	2.0	1.8	16%	0.8	155%

▪ Revenue growth at ~6% was led by ~3% volumes and ~3% price increases.

▪ Gross margins slightly contracted by ~26bps on a YoY basis and ~208bps sequentially.

▪ Despite gross margin contraction, de-growth in other expenses (-~3%) led to EBITDA margins expanding by ~148bps y-o-y.

▪ Company derives more than ~20% of its revenues from the modern trade channel and ~5% of revenues from the e-commerce channel currently.

▪ Bangladesh facility capacity is currently ~70% utilised and management has indicated to significantly increase capacity of the same over the medium term.

▪ Higher other income and depreciation of Rs.33mn in 1QFY17 Vs Rs.31mn in 1QFY16 further led to PBT growing by a healthy ~23% y-o-y to Rs.445mn during the quarter. Higher effective tax rate at ~34.9% in 1QFY17 vs ~30.8% in 4QFY16 constrained reported profit growth to ~16%.

Abridged Financial Statements				
Rs.mn	FY15	FY16	FY17E	FY18E
<b>Profit &amp; Loss</b>				
Revenue	10,477	12,165	12,791	14,639
EBIDTA	775	1,082	1,280	1,533
Other Income	25	23	29	43
Depreciation	175	142	161	169
EBIT	625	963	1,148	1,407
Interest	13	12	9	4
PBT	612	951	1,139	1,403
Tax	189	287	342	421
Normalised PAT	435	665	797	982
EPS (Rs.)	3.1	4.7	5.6	6.9
<b>Balance Sheet</b>				
Net Worth	3,058	3,393	3,816	4,390
Loan Funds	356	196	96	76
Deferred Tax Liabilities	-31	-41	-41	-41
Sources of Funds	3,383	3,548	3,871	4,424
Net Block	709	667	636	598
Intangible Investment	14	10	10	10
Investments	287	248	248	248
Total Current Assets	3,953	4,901	5,345	6,201
Total Current Liabilities	1,581	2,278	2,368	2,633
Net Current Assets	2,372	2,623	2,977	3,569
Application of Funds	3,383	3,548	3,871	4,424
<b>Cash Flow</b>				
Cash Flow from Operation	136	534	1,057	742
Capex	0	103	131	131
Cash Flow from Investments	29	83	102	88
Free Cash Flow	95	447	926	611
Cash Flow from Financing	-139	-448	-483	-432
Closing Cash Balance	75	72	544	767

Key Metrics				
	FY15	FY16	FY17E	FY18E
<b>Growth Ratios (%)</b>				
Revenues	8%	16%	5%	14%
EBIDTA	-3%	40%	18%	20%
PAT	-6%	53%	20%	23%
<b>Margins (%)</b>				
Gross	45.3%	45.5%	45.2%	45.5%
EBIDTA	7.4%	8.9%	10.0%	10.5%
PAT	4.2%	5.5%	6.2%	6.7%
<b>Return Ratios (%)</b>				
RoCE	13.8%	19.4%	20.3%	20.7%
RoE	14.7%	20.6%	20.6%	20.8%
Total Asset Turnover (x)	3.2	3.5	3.2	3.1
<b>Leverage Ratios (x)</b>				
Debt to Equity	0.12	0.06	0.03	0.02
Current Ratio	2.50	2.15	2.26	2.36
<b>Working Capital Ratios</b>				
Debtor Days	39	45	45	45
Inventory days	79	86	79	79
Creditor Days	41	52	52	52
<b>Valuation Metrics</b>				
Shares Outstanding (mn)	141	141	141	141
CMP	128			
Market Cap. (Rs. mn)	17,665			
Enterprise Value (Rs. mn)	17,659	17,540	16,968	16,726
EV /Sales (x)	1.7	1.4	1.3	1.1
Price/Earnings (x)	41.6	27.2	22.7	18.4
Price/Book (x)	5.8	5.2	4.6	4.0
EV/EBIDTA (x)	22.8	16.2	13.3	10.9
FCF Yield (%)	0.5%	2.5%	5.5%	3.7%
Dividend Yield	1.2%	1.6%	1.7%	1.9%

We believe VIP, the market leader led by its strong products, brands and distribution moat would be a beneficiary of the macro economic revival leading to healthy growth for the company. New age brands which are the growth drivers of the company along with operating leverage to aid a ~21% PAT CAGR over next four years

Revenues and Earnings to grow at a CAGR of ~12% & ~19% respectively over next four years.



Enhanced capital efficiency on the back of increasing scale provided rupee depreciation doesn't play a damper.



Huge potential for re-rating given that it currently trades at ~1.4x FY15 sales.

	FY11	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Revenue	7,584	10,477	12,165	12,791	14,639	16,832	19,441
EBITDA	1,203	775	1,082	1,280	1,533	1,808	2,075
Margins	15.9%	7.4%	8.9%	10.0%	10.5%	10.7%	10.7%
PAT	887	435	665	797	982	1,143	1,328
EPS	6.28	3.08	4.70	5.64	6.95	8.09	9.40

	FY11	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Gross Margins	53.5%	45.3%	45.5%	45.2%	45.5%	45.0%	45.0%
ROE	51.0%	14.7%	20.6%	20.6%	20.8%	21.1%	22.9%
ROCE	34.7%	13.8%	19.3%	20.3%	20.7%	21.1%	23.0%

P/E multiple	FY20E EPS	Price target
20x	Rs.9.40	Rs.188
25x	Rs.9.40	Rs.235

Trading History – % of times stock traded					
PE range	<13x	13x-16x	16x-19x	19x-22x	>22x
	10%	19%	24%	41%	7%

Entry = Rs.128 @ 18x FY18E

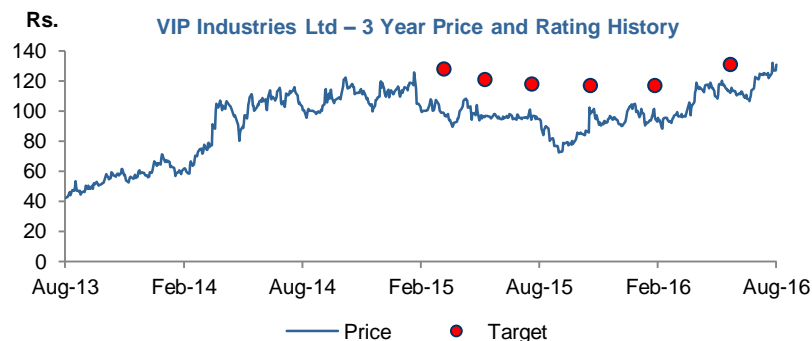


Cumulative Dividends of Rs.11



EPS CAGR of ~19%, exit multiple of 25x FY20E

TOTAL RETURN OF 1.9x



Report Date	Price	Target	Reco.
26/May/16	114	131	Buy
02/Feb/16	101	117	Buy
26/Oct/15	102	117	Buy
28/Jul/15	94	118	Buy
15/May/15	95	121	Buy
13/Mar/15	99	128	Buy

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