



SUBLIME FINANCIAL ADVISORY
NO COMPROMISE IN EXCELLENCE

VIP Industries Ltd (VIP)

-Brand provides visibility

Multibagger Report

Recommendation	:	Buy
CMP	:	Rs 250.00
Target	:	NA
% Allocation	:	5%

Sector	:	Plastics
Sensex	:	31284
NSE code	:	VIPIND
BSE Code	:	507880

AT A GLANCE

52 Week High Low	:	:269.00/112.00
Mkt. Cap (Rs. in Crs)	:	:3539
Major Shareholders	:	
Promoters (%)	:	:52.50%
Others (%)	:	:47.50%

Background: VIP Industries is a leading luggage maker in India offering a wide range of products in hard luggage and soft luggage segments including school bags, trolleys, backpacks, suitcases, executive cases, duffels and overnight travel solutions. Some of its brands include VIP, Caprese, Alfa, Aristocrat, Buddy and Carlton. The company is Asia's No.1 luggage manufacturer and has always looked to transforming its business strategy from time to time. The company has got 4 manufacturing facilities located at Haridwar in Uttarakhand, Jalgaon, Nagpur and Nashik in Maharashtra. The company has also set up a subsidiary in Bangladesh to manufacture and market luggage and bags.

Robust product portfolio

VIP has strong diversified brand and portfolio which caters to almost all the segment. The company has VIP brand which caters to high end customers based and has Teflon coated anti stain and water resistant bags to the lightest bag in the VIP Portfolio. VIP's lightest range of bags starts from 1.9kgs and is the lightest ever in the portfolio. This range was designed for the new age traveler, keeping in mind the modern airline luggage restrictions while setting a new benchmark in the luggage industry.

Market Leader

Samsonite, VIP and Safari constitute approximately 95 percent of the total organised sector of the luggage industry. Brands like Delsey, Tommy Hilfiger to name a few, account for the rest. VIP is the leader with an almost 50 percent market share, followed closely by Samsonite with 45 percent. Safari accounts for the rest.

Outlook & Valuation

We Initiate coverage of VIP Industries with a **BUY** rating. Given the strong brand, diversified product portfolio, Shift to organized sector and wide distribution network are key positives for the stock. At the CMP of INR 250.00, the stock trades at 32.47x EPS of FY19. **Key Risks** to our recommendation include any steep increase in competition and steep increase in raw material cost which might adversely impact the company.

Investment Arguments

Company Profile: VIP Industries is a leading luggage maker in India offering a wide range of products in hard luggage and soft luggage segments including school bags, trolleys, backpacks, suitcases, executive cases, duffels and overnight travel solutions. Some of its brands include VIP, Caprese, Alfa, Aristocrat, Buddy and Carlton. The company is Asia's No.1 luggage manufacturer and has always looked to transforming its business strategy from time to time. The company has got 4 manufacturing facilities located at Haridwar in Uttarakhand, Jalgaon, Nagpur and Nashik in Maharashtra. The company has also set up a subsidiary in Bangladesh to manufacture and market luggage and bags. The company is maintaining its market share of 50% in the organized luggage industry by offering wide range of product mix like Carlton and VIP catering to high-end segment, Aristocrat caters to mid-segment, Skybags cater to mid and sub-mid segment and Alfa for lower-end price segment. The company sells moulded furniture Moderna, which is of superior quality but the furniture business is declining due to intense pressure from competitors. The company is planning to restructure the moderna business to optimize its sales.



Robust product portfolio:

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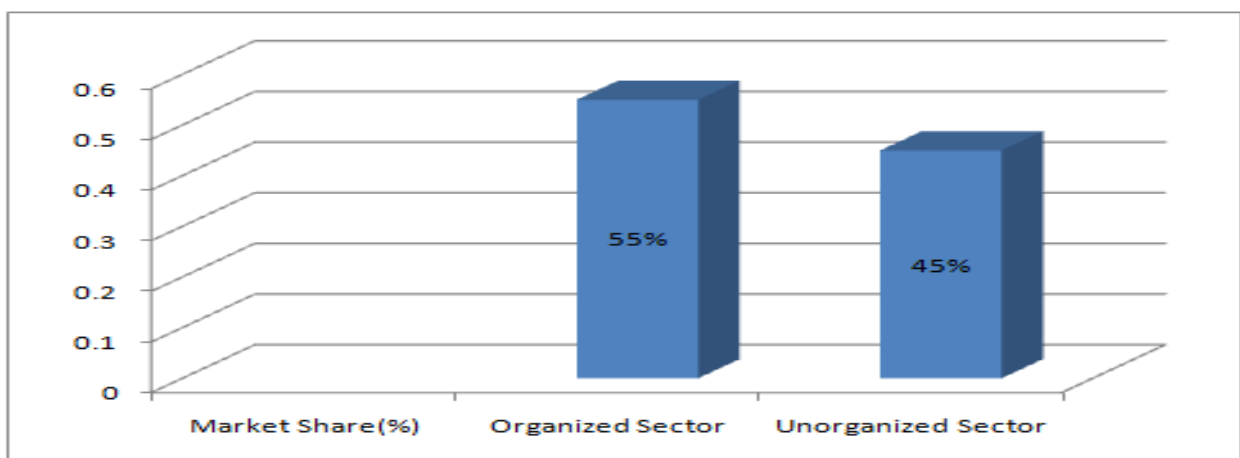
printed polycarbonate luggage. Skybags also manufactures a wide variety of products like trolleys, rucksacks, backpacks, duffel-bags, laptop bags, everyday travel accessories and short haul essentials made from quality materials. Aristocrat brand is having soft as well as hard luggage. The brand also is into trademark suitcases and briefcases. With a vast network of touch-points and its wide array of products in various luggage categories, Aristocrat is all geared up for witnessing remarkable growth in the future. Alfa is popularly known as the value-for money brand from the house of VIP Industries Ltd. The brand came into existence in the year 1987 and quickly became one of the biggest brands in the luggage industry of India. With hard luggage products in its kitty, Alfa caters to the various demands of the value conscious customers. The cost-effective-quality of Alfa has changed the outlook of consumers who used to opt for cheaper options by compromising quality. Alfa has become the brand option which promises dependable eminence at an affordable price. Alfa is made for the consumers. The company also having ladies handbag segment and also hold the strong market share.

Market Leader - Organized sector:

Samsonite, VIP and Safari constitute approximately 95 percent of the total organised sector of the luggage industry. Brands like Delsey, Tommy Hilfiger to name a few, account for the rest. VIP is the leader with an almost 50 percent market share, followed closely by Samsonite with 45 percent. Safari accounts for the rest. The oligopolistic nature of the industry, favorable macro tailwinds, and gradual shift in consumer preference for branded luggage also triggered by the implementation of Goods & Service Tax augurs well for the organised listed entities like VIP Industries and Safari.

Shift to organized sector

Industry reports indicate that the luggage sector is expected to grow at a CAGR of ~13% going ahead, within which, the organized segment is expected to grow at a faster pace compared to the unorganized segment. With the implementation of GST, the pricing gap between the organized and unorganized players is expected to reduce, which would make the pricing of organized players equally attractive. The share of organized players is expected to improve from current levels, which would be beneficial for branded players like VIP.



GST to provide level playing field

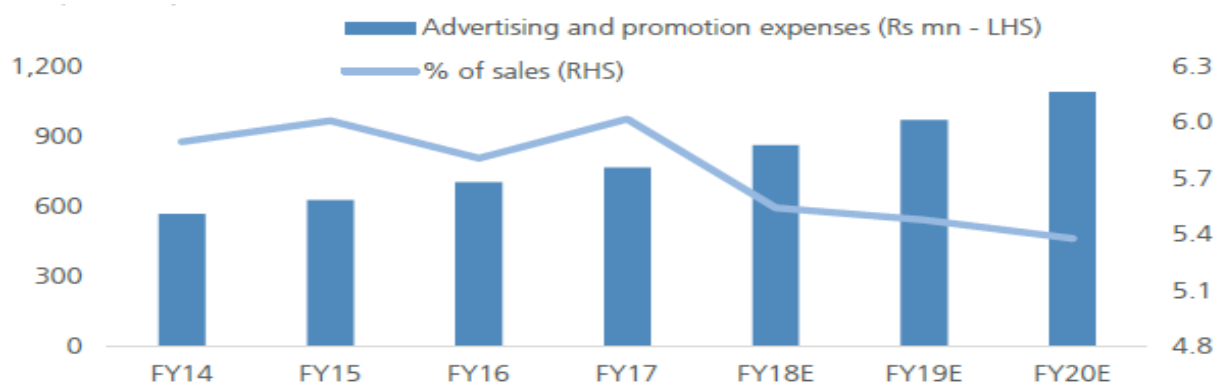
VIP has been paying an effective indirect tax of 20% against our estimate of 12% paid by the unorganized players. GST of 28% is applicable now to the entire luggage industry, which would increase the indirect tax burden on all players. The impact would be more felt to the unorganized players who evade indirect taxes to the tune of 40%. To recover the same, VIP has already taken a price hike of 6% in Q1FY18 with further price increase expected in Q2FY18. We also expect unorganized players to take similar or larger price increase for its products to recover the increased indirect tax impact, which would reduce the pricing gap between the organized and unorganized players creating a level playing field. This is estimated to shift some volumes from the unorganized towards branded organized players like VIP for better product quality and established brands. This would help VIP to grow at faster pace over unorganized players.

GST vs. Indirect taxes		
Category of tax	Rate for VIP	Unorganized player
Excise duty (%)	12.5	8
Sales tax (%)	5 to 13	3 to 7
Effective indirect tax (%)	20	12
GST (%)	28	28

Strong brand visibility & wide distribution network

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 the management expects this trend to continue over FY17 to FY20E.

In terms of sales and distribution, VIP is selling its product through a network of 3000 dealers, 225 exclusive stores, 260 franchise stores, military canteen, through all Supermarkets and hypermarkets and through E-com. This has improved the brand visibility and product reach for the entire range of products across various VIP brands and across price points.



Manufacturing shift to Bangladesh:

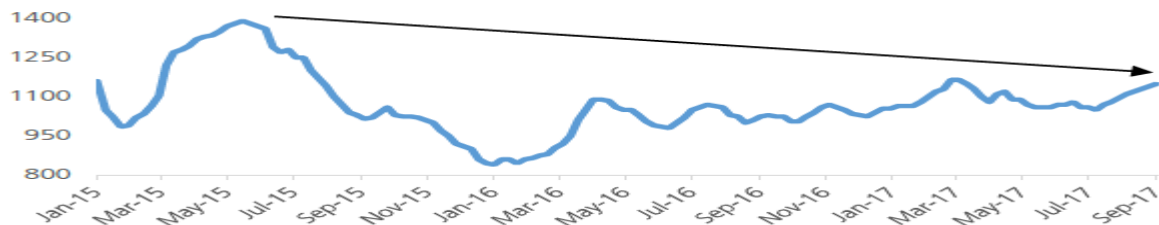
Soft luggage industry is a labour intensive industry with polypropylene as the key raw material. To save on cost, VIP has been sourcing 90% of its soft luggage from China which accounts for 70% of its revenues with designing and quality control done by the company itself. Due to increasing labour costs and other reasons such as strengthening of the Yuan vs. INR and toughening environmental and labour laws, the company has 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. It is also important to note that the Bangladesh subsidiary enjoys excise and sales tax holiday for a period of 6 years beginning FY15.

China now forms 70% (down from 90%) of the soft luggage requirement, with Bangladesh forming 20% and rest manufactured indigenously. Going forward, we expect the sourcing of soft luggage to fall further from China to 50% with share of Bangladesh increasing to 40% which would aid margins going forward.

Lower raw material cost:

The 2 major categories of inputs - polypropylene (for hard luggage) and polycarbonate have softened in the last 2 years. Accordingly, VIP has renegotiated with suppliers in Q1FY18 fresh contracts for supply of these raw material at lower prices. The above two mentioned raw material are crude derivatives and we estimate them to remain at lower levels in near term due to excess supply in the market. This coupled with strong demand environment for end product should aid margins going forward for VIP.

Polypropylene - Asia price Index



Industry Growth Potential:

In recent years In India, luggage and handbags have managed to shed their traditional utilitarian tag and have now evolved as lifestyle products. Increasing business and leisure travels coupled with rising disposable income and organized retailing have led to increased demand for luggage. Within this category, the demand for brand names has grown, as consumers aspire for goods that are branded, durable and count as status symbol.

As per Ministry of Tourism, India will account for 50 million outbound tourists by 2020, thereby presenting favourable prospects for the luggage industry. Indian economy is expected to grow at ~7% per annum over the next 3 years creating business opportunities both in the private as well as the public sector. This would stimulate business travel translating into demand for business related bags. Big youth population in the country translate into healthy demand for backpacks and duffel bags. Modern retailing and new fashion trends are also expected to drive the sale of casual bags and travel luggage bags category over the next few years. Luggage has also become an important part of the wedding trousseau, with even people in tier II and III cities

buying branded suitcases and strollers during the wedding season. Millennial who constitute a considerable portion of Indian population, travel and like to travel hands free, which in turn have initiated growth for the backpack-duffle bag category. Lower penetration of luggage bags within the country is estimated to increase the overall size of the market.

Despite such strong prospects, the overall luggage market in the country stands at Rs 80 bn, according to market estimates and approximately 50 percent of this is dominated by organized players with VIP having a 50% market share, with fierce competition from Samsonite and American Tourister. It is imperative for all the luggage players to actively design their strategy to be part of the growth story of the luggage Industry and here we believe VIP has fundamentally done lot of things right.

As per Industry estimates, the luggage sector is expected to grow at a CAGR of ~11% over FY17 to FY20E within which, the organized segment is expected to grow at a faster pace. This would be on the back of implementation of GST, increase in disposable income, improved brand visibility of established players and increasing fashion consciousness and aspiration levels. All of the above would be beneficial for branded players like VIP.

Financials

Profit & Loss

Particulars(Rs.Cr)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	1047.7	1216.5	1275.2	1428.2	1599.6
EBITDA	77.5	107.9	131.8	152.8	171.2
PBT	65.5	95.1	123.5	141.2	160.4
PAT	46.6	66.5	83.9	96.0	109.0
EPS	3.3	4.7	5.9	6.8	7.7

Balance Sheet

Particulars(Rs.Cr)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	28.3	28.3	28.3	28.3	28.3
Reserves & Surplus	277.5	311.1	380.1	437.7	503.1
Total Debt	4.5	6.9	9.7	10.0	10.0
Total Liabilities	310.3	346.3	418.1	476	541.4
Total Fixed Assets	72.3	67.7	61.6	70.2	73.2
Other Fixed Assets	31.8	27.9	26.5	31.5	37
Debtors	111.1	149.3	121.0	200.0	223.9
Cash & Bank	7.5	8.0	10.6	20.5	35.0
Loans & Advances	24.2	43.4	38.0	35.0	40.0
Other current Assets	252.5	288.7	351.5	333.4	366.4
Total Current Assets	395.3	489.4	521.1	588.9	665.3
Sundry Creditors	119.0	160.8	145.7	166.6	186.6
Provisions	70.1	77.9	45.4	48.0	47.5
Total Current Liabilities	189.1	238.7	191.1	214.6	234.1
Net Current Assets	206.2	250.7	330.0	374.3	431.2
Total Assets	310.3	346.3	418.1	476.0	541.4

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