

VIP INDUSTRIES

Happy journey continues

■ Top line in line with estimate; soft luggage to drive growth

VIP Industries (VIP) reported a Q2FY11 top line of INR 1,464 mn against INR 1,251 mn in Q2FY10 and INR 2,365 mn in Q1FY11; it grew 17% Y-o-Y, but was down 38% Q-o-Q due to seasonality factor playing out. Growth was primarily driven by increased revenue contribution from the soft luggage segment. However, sales would have been much higher but for floods in some parts of India in September which dented sales. The company plans to introduce Carlton products in the premium segment by Q3FY11 end and roll them out completely by April 2011. The company has ended its contract with Delsey and replaced it with Carlton.

■ EBIDTA marginally below estimate due to higher raw material costs

The company posted EBIDTA of INR 179 mn in Q2FY11 against INR 130 mn in Q2FY10. EBIDTA margin stood at 12.3% against 10.4% in Q2FY10. Margins were below our estimate due to higher raw material costs. The company will be effecting a 3-5% price hike from 1st November 2010 because of increase in raw material prices and also due to robust demand.

■ Change in revenue mix to boost margins going ahead

Soft luggage contribution at FY10 end was around 47% and that of hard luggage was 53%. However, for the first six months of FY11 soft luggage's contribution to the top line has scaled up to 55% and that of hard luggage has dipped to 45%. With higher EBIDTA margins in soft luggage compared to hard luggage, we believe higher contribution from the former will lead to margin expansion. The management has guided that margins in hard luggage are also improving.

■ PAT higher than estimate due to lower interest and tax outflow

VIP's PAT came higher than estimated at INR 114 mn against INR 56 mn in Q2FY10, a growth of 103.6% Y-o-Y, primarily due to lower interest cost and tax outflow. Interest cost was lower due to lower debt at Q1FY11 end and we expect company to almost become debt free by end of this year. Tax outflow was lower due to higher output from its Uttaranchal plant which enjoys tax benefit. However, for the full year management has guided for 20% tax rate.

■ Outlook and valuations: Attractive; maintain 'BUY'

VIP, being the largest player in Asia, in our view, has high growth visibility for the next few years. Given the high RoE and RoCE we have derived a fair price of INR 760 per share, valuing the company at 16x FY12E earnings. We maintain 'BUY' on the stock.

Financials

Year to March	Q2FY11	Q2FY10	Y-o-Y %	Q1FY11	Q-o-Q %	FY10	FY11E
Revenues	1,464	1,251	17.0	2,365	(38.1)	6,690	8,099
EBITDA	179	130	37.7	462	(61.3)	934	1,385
Core profit	114	56	103.6	322	(64.6)	484	957
Diluted EPS (INR)	4.0	2.0	103.6	11.4	(64.6)	20.4	33.9
Diluted P/E (x)						30.6	18.5
EV/EBITDA (x)						19.7	12.6
ROAE (%)						46.5	53.3

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Reuters : VIPI.BO

Bloomberg : VIP IN

EDELWEISS RATING

Absolute Rating

BUY

MARKET DATA

CMP	:	INR 626
52-week range (INR)	:	801 / 116
Share in issue (mn)	:	28.3
M cap (INR bn/USD mn)	:	17.7 / 398.7
Avg. Daily Vol. BSE/NSE ('000)	:	1,125.2

SHARE HOLDING PATTERN (%)

Promoters*	:	43.8
MFs, FIs & Banks	:	3.3
FIIIs	:	1.1
Others	:	51.8
* Promoters pledged shares (% of share in issue)	:	Nil

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	0.4	23.6	23.2
3 months	11.8	69.8	58.0
12 months	16.0	336.3	320.3

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Financial snapshot - (Standalone)**(INR mn)**

Year to March	Q211	Q210	% change	Q111	% change	FY10*	FY11E*	FY12E*
Revenues	1,464	1,251	17.0	2,365	(38.1)	6,690	8,099	9,939
Raw material and components	327	234	39.7	500	(34.6)	2,841	3,320	4,000
Employee cost	176	158	11.4	184	(4.3)	691	802	944
Other expenses	457	448	2.0	591	(22.7)	2,225	2,592	3,056
Increase/Decrease in value of stock	(179)	(114)	57.0	181	198.9			
Purchases of traded goods	504	395	27.6	447	12.8			
Total expenditure	1,285	1,121	14.6	1,903	(32.5)	5,757	6,714	8,001
EBITDA	179	130	37.7	462	(61.3)	934	1,385	1,938
Interest	5	22	(77.3)	12	(58.3)	93	39	4
Depreciation	37	43	(14.0)	38	(2.6)	176	176	182
Other income	1	2	(50.0)	0	-	22	42	112
PBT	138	67	106.0	412	(66.5)	688	1,211	1,864
Tax	24	(8)	(400.0)	90	(73.3)	110	254	522
Adjusted net profit	114	75	52.0	322	(64.6)	578	957	1,342
Extraordinary items	0	(19)	(100.0)	0	-	(94)	0	0
Net profit	114	56	103.6	322	(64.6)	484	957	1,342
Minority interest						0	0	0
Net profit after minority interest						484	957	1,342
Equity capital (FV INR 10)	283	283		283		283	283	283
No. of shares (mn)	28	28		28		28	28	28
Diluted EPS (INR)	4.0	2.7	52.0	11.4	(64.6)	20.4	33.9	47.5
Diluted P/E (x)						30.6	18.5	13.2
EV/EBITDA (x)						19.7	12.6	8.5
Market cap / Revenues (x)						2.6	2.2	1.8

as % of net revenues

Raw material	22.3	18.7		21.1		42.5	41.0	40.3
Staff expenses	12.0	10.8		12.6		10.3	9.9	9.5
Other expenses	31.2	35.8		25.0		33.3	32.0	30.8
EBITDA	12.2	10.4		19.5		14.0	17.1	19.5
Net profit	7.8	4.5		13.6		7.2	11.8	13.5

* Annual numbers are on consolidated basis

■ Company Description

VIP, flagship company of the DG Piramal Group, was established in 1968. It began manufacturing suitcases in 1971. The company operates in luggage and moulded furniture segments.

The company manufactures a range of hard-sided and soft-sided luggage including trolleys, suitcases, duffels and overnight travel solutions, executive cases, backpacks and school bags. Some of its brands include *VIP*, *Alfa*, *Footloose*, and *Buddy*. The moulded furniture division manufactures chairs, tables, stools and shells of plastic, marketed under the brand *VIP Moderna*. The company's manufacturing facilities are located at Nashik, Nagpur, Sinnar, and Jalgoan in Maharashtra, and in Haridwar (Uttarakhand)

■ Business segments

VIP operates under four major business segments:

1. *Delsey* and *VIP* cater to the high end segment.
2. *Aristocrat* caters to the mid segment.
3. *Alfa* for lower end price segment.
4. *SkyBags* is a separate line catering to mid & sub mid via hyper stores.

For marketing and selling, the company opts various channels such as:

1. **ORS:** Sale via departmental stores like *Lifestyle*, *Shopper's Stop*, etc.
2. **Hyper stores:** Like *Big Bazaar*, *Vishal*, etc. The company sells only *SkyBags* via this channel. This segment posted 100% growth last year.
3. **MBO:** Multi brand outlets which sell all brands.
4. **Distributors:** They sell *Alfa* and *Aristocrat* primarily to smaller vendors.
5. **Exclusive shops:** Here VIP has various formats depending on brands, price points, and target customers. It has 450 exclusive outlets.

■ Key Risks

Stiff competition from unorganised sector

Size of the unorganised market is ~INR 20 bn, whereas the organised market is ~INR 10 bn. The unorganised segment continues to grow at a faster rate as most of the players import luggage from China and Singapore which is aggressively priced as the quality is sub-standard. We believe, increase in competition from the unorganised sector can affect VIP's earnings growth.

Increase in raw material prices

The company currently derives 50% of its revenues from hard luggage that is manufactured in-house. Major raw materials consumed in manufacture of hard luggage are polypropylene and aluminum. Any substantial rise in their prices will adversely impact the company's margins and, hence, profitability.

Recession in global economy

The current uncertainty in Europe and slowdown in China can affect demand for luggage. With VIP's exposure to European markets via *Carlton*, any slowdown in these countries is likely to affect demand and, hence, VIP's earnings.

Fluctuation in exchange rates, particularly appreciation of Yuan

Any appreciation in Yuan could hit VIP's realisations as the company imports its entire soft luggage from China. Also, since the company revises prices of its bags thrice a year, it cannot immediately pass this on to consumers. In this context, appreciation of the Yuan is particularly harmful for earnings.

Financial Statements

Income statement					(INR mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Net revenues	5,735	5,634	6,690	8,099	9,939
Raw material costs	2,799	2,684	2,841	3,320	4,000
Gross profit	2,936	2,950	3,850	4,778	5,938
Employee expenses	590	652	691	802	944
Other expenses	1,776	2,179	2,225	2,592	3,056
Operating expenses	2,366	2,830	2,916	3,393	4,000
Total expenditure	5,165	5,514	5,757	6,714	8,001
EBITDA	570	120	934	1,385	1,938
Depreciation & amortisation	150	146	176	176	182
EBIT	420	(26)	758	1,209	1,756
Interest expense	132	137	93	39	4
Other income	48	130	22	42	112
Profit before tax	336	(33)	688	1,211	1,864
Provision for tax	45	5	110	254	522
Core profit	291	(39)	578	957	1,342
Extraordinary/ Prior period items	(76)	(104)	(94)	-	-
Profit after tax	216	(143)	484	957	1,342
Profit after minority interest	216	(143)	484	957	1,342
Equity shares outstanding (mn)	28	28	28	28	28
EPS (INR) basic	10.3	(1.4)	20.4	33.9	47.5
Diluted shares (mn)	28	28	28	28	28
EPS (INR) diluted	10.3	(1.4)	20.4	33.9	47.5
CEPS	15.7	3.2	25.9	40.1	53.9
DPS	3.0	1.0	5.0	9.0	12.0
Dividend payout (%)	34.5	68.5	20.2	31.1	29.6

Common size metrics (% net revenues)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Cost of goods sold	48.8	47.6	42.5	41.0	40.3
Operating expenses	41.3	50.2	43.6	41.9	40.3
EBITDA margins	9.9	2.1	14.0	17.1	19.5
Depreciation & amortisation	2.6	2.6	2.6	2.2	1.8
Interest	2.3	2.4	1.4	0.5	0.0
Net profit margin	5.1	(0.7)	8.6	11.8	13.5

Growth metrics (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	30.0	(1.8)	18.8	21.0	22.7
EBITDA	35.1	(79.0)	679.5	48.3	39.9
PBT	16.1	(109.9)	1,959.0	76.1	53.9
Net profit	15.9	(113.2)	1,396.6	65.6	40.3
EPS	4.4	(113.2)	1,396.6	65.6	40.3

Balance sheet					(INR mn)
As on 31st March	FY08	FY09	FY10	FY11E	FY12E
Total equity capital	283	283	283	283	283
Reserves & surplus	988	831	1,182	1,841	2,787
Shareholder's equity	1,270	1,113	1,465	2,124	3,069
Secured loans	966	847	723	100	-
Unsecured loans	331	514	150	-	-
Total debt	1,298	1,361	873	100	-
Deferred tax liability (net)	36	28	6	2	2
Sources of funds	2,604	2,502	2,344	2,226	3,071
Gross fixed assets	2,451	2,458	2,482	2,557	2,642
Accumulated depreciation	1,551	1,552	1,669	1,845	2,027
Net fixed assets	900	905	813	712	615
Capital work in progress	25	13	4	-	-
Total fixed assets	925	919	817	712	615
Investments	21	10	3	3	3
Inventories	1,013	795	869	837	986
Accounts receivable	888	902	798	954	1,089
Cash and cash equivalents	84	119	188	280	1,127
Loans and advances	416	453	360	374	389
Other current assets	96	101	92	92	92
Current assets	2,498	2,369	2,306	2,536	3,683
Current liabilities	844	828	646	728	833
Provisions	125	61	137	298	397
Current liabilities & provisions	970	889	783	1,025	1,230
Net current assets	1,528	1,480	1,523	1,511	2,453
Miscellaneous expenditure	130	94	-	-	-
Uses of funds	2,604	2,502	2,344	2,226	3,071

Free cash flow					(INR mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Net profit	216	(143)	484	957	1,342
Add: Depreciation	150	146	176	176	182
Add: Others	109	205	295	19	(86)
Gross cash flow	474	208	955	1,153	1,438
Less: Changes in working capital	(223)	124	(116)	104	(95)
Operating cash flow	251	332	839	1,257	1,343
Less: Capex	(117)	(86)	(106)	(75)	(85)
Free cash flow	134	245	733	1,182	1,258

Cash flow metrics					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating cash flow	251	332	839	1,257	1,343
Financing cash flow	(171)	(233)	(673)	(1,110)	(501)
Investing cash flow	(110)	(64)	(97)	(55)	5
Net cash flow	(30)	34	69	92	847
Capex	(117)	(86)	(106)	(75)	(85)
Dividends paid	(74)	(98)	(98)	(298)	(397)

Profitability ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
ROACE (%)	17.7	(1.0)	31.4	53.0	66.4
ROAE (%)	28.3	(3.6)	46.5	53.3	51.7
ROA (%)	12.2	(1.5)	23.8	41.9	50.7
Current ratio	2.6	2.7	2.9	2.5	3.0
Receivables (days)	49	58	46	39	38
Inventory (days)	121	123	107	94	83
Payables (days)	103	114	95	76	71
Cash conversion cycle (days)	66	67	59	58	49
Debt-equity (x)	1.0	1.2	0.6	0.0	-
Debt/EBITDA	2.3	11.4	0.9	0.1	-
Adjusted debt/Equity	1.0	1.2	0.6	0.0	-
Long term debt / Capital employed (%)	49.8	54.4	37.3	4.5	-
Total debt / Capital employed (%)	88.5	91.0	70.9	50.7	40.1
Interest coverage (x)	3.2	(0.2)	8.2	31.0	438.6

Operating ratios (x)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Total asset turnover	2.4	2.2	2.8	3.5	3.8
Fixed asset turnover	6.6	6.2	7.8	10.6	15.0
Equity turnover	4.9	4.7	5.2	4.5	3.8

Du pont analysis

Year to March	FY08	FY09	FY10	FY11E	FY12E
NP margin (%)	5.1	(0.7)	8.6	11.8	13.5
Total assets turnover	2.4	2.2	2.8	3.5	3.8
Leverage multiplier	2.3	2.4	2.0	1.3	1.0
ROAE (%)	28.3	(3.6)	46.5	53.3	51.7

Valuation parameters

Year to March	FY08	FY09	FY10	FY11E	FY12E
Diluted EPS (INR)	10.3	(1.4)	20.4	33.9	47.5
Y-o-Y growth (%)	4.4	(113.2)	1,396.6	65.6	40.3
CEPS (INR)	15.7	3.2	25.9	40.1	53.9
Diluted P/E (x)	60.7	(458.3)	30.6	18.5	13.2
P/BV (x)	13.9	15.9	12.1	8.3	5.8
EV/Sales (x)	3.3	3.4	2.7	2.2	1.7
EV/EBITDA (x)	33.1	158.0	19.7	12.6	8.5
Dividend yield(%)	0.5	0.2	0.8	1.4	1.9

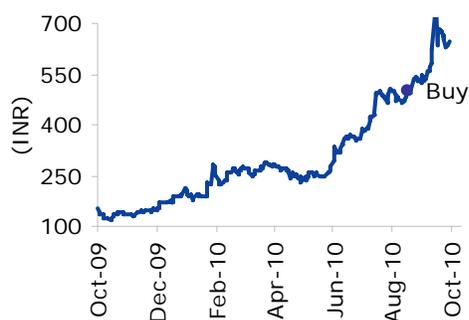
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Coverage group(s) of stocks by primary analyst(s): *Miscellaneous*

Transport Corporation of India, VIP Industries

VIP Industries



Recent Research

Date	Company	Title	Price (INR)	Recos
07-Sep-10	VIP Industries	Happy journey ahead; <i>Initiating Coverage</i>	495	Buy
27-Jul-10	Jaihind Projects	High growth visibility; <i>Visit Note</i>	265	Not Rated
21-Jul-10	TCI	Good times ahead; <i>Result Update</i>	136	Buy
31-May-10	TCI	Worst of freight rates over; value unlocking ahead; <i>Result Update</i>	112	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	116	45	12	176

* 3 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	110	53	13

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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