VIP INDUSTRIES LIMITED — Luggage

CMP: Rs 134 **Target: Rs 225** **STRONG BUY**

Key Market Data

BSE Sensex	18,716
Nifty	5,559
Bloomberg Code	VIP IN
Reuters Code	VIPI. BO
BSE Code	507880
NSE Code	VIPIND
Face Value (INR)	10
Free Float	54.9%
Market Cap (INR MM)	3,405
52 Week High / Low (INR)	143 / 80
Avg Daily Volume (6 mth)	37,739

Key Financials (INR MM)

Yr Ending : Mar	FY07	FY08*E*	FY09*E*
Net Sales	4,332	5,577	6,804
Total Expenses	3,917	4,969	6051
EBITDA	415	607	753
Oper. Margin	9.6%	10.8%	11.0%
Interest	96	113	113
Depreciation	136	147	148
Net Profit	233	305	402
Equity	254.6	254.6	254.6
EPS	9.2	12.0	15.8
P/E	-	11.1	8.5
EV/EBITDA	-	7.4	5.8
MCap/Sales	-	0.6	0.5
MCap/EBITDA	-	5.8	4.7
Book Value	44.2	52.6	64.6
Price/Book Val	-	2.5	2.0
ROA	7%	12%	14%
ROCE	12%	14%	16%

(Our projections do not include Aristocrat figures)

Shareholding Pattern

As on June 30, 07	**%**
Promoters	45.1
Institutional Investors	9.2
Public & Others	45.7

About the Company

VIP Industries Limited (VIP), a leading Indian luggage company, manufactures hard luggage in India and sources soft luggage from China. It has three state-of-the-art manufacturing facilities located at Nasik & Sinnar in Maharashtra and at Haridwar in Uttaranchal.

Investment Rationale

- The ***core vision*** of the company is to ***make travel simple*** and convenient for the people around the world, by offering ***a wide range of world class products***.
- ***Rising disposable incomes*** driven by buoyant GDP growth coupled with a shift towards ***better lifestyle*** ensures strong growth for the luggage industry. VIP, the ***leader***, with a ***60% market share***, is fully geared to capitalise on the same.
- The ***merger of Blow Plast***, the marketing arm, with itself in FY06, has lent ***synergetic*** and ***cost benefits*** to VIP; evident from the ***improvement*** in its ***operating margins*** – up from 8.7% in FY05 to 9.6% in FY07.
- Already an established brand, VIP has embarked on a series ***advertising*** and ***brand building programs*** in an effort to further strengthen its brand. ***Re-positioning*** of brands like ***Alfa, Aristocrat, Skybag*** and ***Footloose*** to cater to all segments, will ***enhance*** VIP's market ***share***.
- It also plans to foray into the ***Rs50 million luxury baggage segment*** in India, with a view to make the most of the ***burgeoning opportunity*** in this space.
- One could soon see VIP riding on the ***organised retail wave***; ***exclusive formats*** are planned (VIP Lounges, VIP Exclusive stores) to augment sales all over India.
- In line with its efforts of ***rationalising the cost structure*** of the company; VIP is expected to continue with the ***golden handshake***, i.e. VRS, going forward, expenses for which are not quantifiable at present.

Risks

The main concerns for VIP are competition from the unorganised market and increase in input prices.

Valuation

At the current market price of **Rs134**, VIP's projected EPS (FY09) of **Rs15.8** is discounted **8.5x**. We recommend a **'STRONG BUY'** on VIP with a price target of **Rs225** by **Dec 08**.

Buy Buy, Buy Buy – Jaana Hain Door!

Cheaper air fares and foreign holidays at affordable prices is allowing everyone and more and more people to travel throughout the country and the world. In this economic era many people, whether it is for business or pleasure, travel several times giving rise to the need of reliable and practicable luggage. The days are not far away when people will buy luggage as they do their designer clothes, to many it will be a 'must have' fashion accessory.

The size of the Indian Luggage industry is said to be in the range of Rs 18.5 billion to Rs 20.0 billion, out of which Rs 8 billion to Rs 9 billion is catered by the organized sector. The luggage industry is classified into Hard Luggage and Soft Luggage. The difference between Soft luggage and Hard Luggage is that Hard Luggage is made either of Polypropylene (PP) or Hi-Density Polyethylene (HDPE) or ABS (Acrylonitrile Butadiene Styrene) plastic polymers and Soft luggage on the other hand is made of silk, nylon, & polyester fabric material.

The market for Luggage has been changing rapidly. Like many markets in the country there are several interesting things which are shaping distribution and consumer shopping habits. At the bottom end of the price spectrum the expansion of unorganized sector had created significant price pressure, but now companies have started offering products at the lower end of the price spectrum that can match the best in terms of quality, while providing a guarantee which cannot be provided by the unorganized market. Volumes in the overall luggage market are improving with marginally better average prices. The growing economy and changing consumers' habits are pushing up volumes for the luggage industry but along with that there is new class of consumers that has emerged for the premium segment which has pushed up the average realizations for the luggage industry. The upcoming middle class of India is the consumer of the middle segment of the luggage industry and with high disposable incomes and a changed mindset towards traveling goods, the trend has titled in favor of own labels with which they can identify.

To gain market share and improve margins the top end suppliers are concentrating on the need to make available a variety of products across all price points at the point of sale. This has, in turn, pressed the companies to set up their own chains and shops in order to tackle the lack of availability at the point of sale. This has helped the organized market to grow and eat into unorganized markets share. The market is quickly moving towards value added features and branding. Aesthetics and colors have definitely started playing an important role in luggage buying. Good-looking luggage in attractive colors has become important in the purchase decision. Earlier, a lot of luggage bought was during weddings. This is still the case, but slowly there is a shift towards need-based buying. With the premium segment growing rapidly, most luggage brands are focusing all their marketing exercises on this segment.

In the context of the Indian Luggage Industry, soft luggage continues to be the prominent driver, growing at an excess of 40% per annum. There has been a continuing shift from hard luggage to soft luggage across all price points. Unlike that, in soft luggage, the growth rate in hard luggage is about 2% per annum. In the domestic market the lower end of the market is dominated by soft luggage from the unorganized sector; almost two thirds of the lower end market is serviced by the unorganized sector. On the global level, China has the highest global market share in luggage manufacturing with most of the global brands sourcing their soft luggage from China. There is also a developing market in the luxury segment which is leading the shift of business to a lifestyle positioning. Increasing ownership of laptops has also opened up a new segment for the industry. Another opportunity in the domestic market is in the area of Institutional business.

Flagship company of the DG Piramal Group, VIP Industries Limited (VIP) is a leading luggage manufacturing company. VIP manufactures Hard Luggage and sources Soft Luggage from China. VIP being one of the leading brands of luggage in Asia, has a strong foothold in the markets it operates in. The company has three state of the art manufacturing facilities located at Nasik, Sinnar and Haridwar. Making travel simple and convenient for people around the world, with a world class range of products designed to aid them experience the joys of traveling is at the core of the company's vision. Besides the luggage business, VIP is also into moulded furniture.

INVESTMENT RATIONALE

- ***Rising Domestic Demand and Market Leadership***

India has seen buoyant growth in GDP of over 8% in the last few years which has led to greater disposable income in the hands of the consumer and a shift towards better lifestyle. The luggage industry in India which had been sluggish for the last few years has picked up steam. The growth in soft luggage segment is expected to be in the region of 20% and the hard luggage segment is expected to grow at 2%-5%. Good economic growth has led to Indians traveling more within and outside the country. This has led to good growth in the luggage industry and more importantly consumers are now increasingly looking at high quality products with well known brands. This has helped VIP, an established brand and market leader with more then 60% market share in the luggage industry, eat into market share of the unorganized sector. VIP, being a very old hand in the luggage business and having loads of experience is aptly placed to take advantage of the growing demand and further consolidate its position in the industry.

- ***Huge Export Potential and Strong International Footing through Carlton***

There is huge export potential for VIP with its world class products and designs offered at affordable prices. The company has three manufacturing facilities in India and sources lot of the material from China which is a low cost center and exporting to various countries like UK and USA. Outside India, VIP has a network of over 1,300 retailers across 27 countries. It is constantly focusing on upgrading its product quality and this has helped VIP successfully compete in the intense European luggage market. In line with its focus on the export market, it acquired Carlton for Rs 200 million in 2004, a world leader in the manufacture of quality luggage. With this acquisition, VIP gained access to the high growth European markets where Carlton already had a strong presence and brand recognition. It has also brought the plant and machinery and the technical know-how from Carlton to its Nasik plant which has helped operational efficiency. Carlton's strong brand name and VIP's low cost manufacturing has given the company an edge in the competitive international market.

- ***Merger with Blow Plast and proposed merger with Aristocrat***

VIP has been on a growth path for some time and to move forward into the next phase of growth the company merged the marketing arm Blow Plast with itself. The merger further consolidated VIP's position as the market leader and helped it enjoy synergetic benefits, enabling it to build a wide spread distribution network and share costs, which would lead to margin improvement. The proposed merger with Aristocrat will put VIP in a dominating position with a market share of 70% in the domestic market. Aristocrat offers products in the range of Rs 1,000-Rs 3,000; this would help VIP further consolidate its position at the lower end of the market. Thus with better quality products at the lower price points along with brand building and advertising, the company expects to bite in to the unorganized sectors share.

- ***Brand building efforts to enhance sales***

VIP has embarked upon focused advertising and brand building programs in its effort to enhance brand recall and be present in all segments of the luggage industry like air, train & bus travel. In the economy segment, the company aims to establish *Alfa* as an independent brand, with prices starting at Rs700 per bag. It plans to position *Aristocrat*, an already well known brand, in the mid-priced range of Rs1,000 to Rs3,000 per bag, after it comes under the company's umbrella of brands. Its flagship brand, *VIP*, is placed in the medium to higher end segment, with products in the price range of Rs2,000 to Rs10,000.

The company is also re-launching *Skybag* as an independent brand for the hypermarket segment and has entered into a tie-up with the French company *Delsey* to market its products in the premium segment in India. Apart from these, VIP sells its *Footloose* backpacks through outlets on college campuses and music chains like *Planet M* & *Music World*. It is also working on promoting *Carlton*; which has an array of premium and super-premium brands like *Ebony*, *Sonic* and *Ergo* in its portfolio; as a premium brand all over the world. Thus, through its brand building exercises, VIP is poised to enhance its sales and garner a greater share of market.

- ***Foray into the luxury baggage segment***

The Rs50 million luxury baggage segment in India seems to be catching up fast and offers a huge opportunity for growth, with a very limited number of brands currently present in this segment. VIP Industries is planning to foray into the high-end designer luggage segment with the introduction of a new brand in the domestic market. This move was made by the company after Samsonite's decision to enter the luxury category – Samsonite has introduced a sub-brand *Black Label* with products priced above Rs20,000. In order that its products enjoy an international appeal, VIP might also consider roping in a foreign partner for designing and manufacturing. This would not only enhance its brand value significantly, but also help it gain ground in the luxury baggage segment with relative ease.

- ***Increased focus on retail***

In a bid to be closer to the ultimate consumer and offer a congenial shopping environment, the company is actively working on increasing its retail presence across India. It already boasts of a good dealer network, with dealers retailing VIP's hard and soft luggage, apart from offering other brands from competing companies as well. However, owing to increased demand for VIP's products, dealers are also promoting the company's products, with other brands taking a backseat. The company plans to achieve a market share of at least 50% in dealers, in the times to come. It is also increasing its focus towards soft luggage, with this segment expected to clock around 45% of the revenues; the balance constituted by hard luggage.

Moreover, one could soon see VIP riding on the organized retail wave, with exclusive formats planned to augment sales all over the country. Apart from offering its products in departmental stores, VIP plans to increase the penetration of its franchisee stores – *VIP Lounge* – in malls and shopping destinations across leading cities. Under the refurbished franchisee model, setting up of *Exclusive VIP* stores in tier II cities and shops for its *Alfa* & *Aristocrat* range of products are already visible. Going forward, the company also plans to launch premium stores for *Carlton*, its international brand.

- ***Financials after merger with Aristocrat look even more attractive***

On a standalone basis we project Aristocrat's Net Sales, EBITDA and Net Profit (FY08) to be Rs 1,045 million, Rs 101 million and Rs 40 million respectively. For FY09, Aristocrat's projected Net Sales, EBITDA and Net Profit are expected to be Rs 1,275 million, Rs 121 million and Rs 53 million respectively. On a ***consolidated basis*** we project VIP's Net Sales, EBITDA and Net Profit (FY08) to be Rs 6,622 million, Rs 709 million and Rs 346 million respectively. For FY09, on a consolidated basis we project VIP's Net Sales, EBITDA and Net Profit Rs 8,079 million, Rs 874 million and Rs 455 million respectively. Equity base of the merged entity would be Rs 282.6 million.

CONCERNS

The main concern for VIP is the unorganized segment which is growing at a good rate. Increase in prices of raw materials is another significant concern for VIP.

VALUATION

At the current price of **Rs134**, VIP's (standalone) projected EPS (FY09) of **Rs15.8** is discounted **8.5x**. We recommend a **'STRONG BUY'** on VIP with a price target of **Rs225** by **Dec 08.**

Annexure: 1

VIP IINDUSTRIES LTD - PROFIT & LOSS ACCOUNT STATEMENT							
Description (In Rs MM)	**FY06**	**Var%**	**FY07**	**Var%**	**FY08(E)**	**Var%**	**FY09(E)**
Net Sales	**3115.3**	**39.1%**	**4332.4**	**28.7%**	**5577.1**	**22.0%**	**6804.1**
Total Income	**3204.6**	**38.0%**	**4420.9**	**27.3%**	**5629.1**	**21.8%**	**6856.1**
- Consumption of Raw Material	1051.4	**31.4%**	1381.6	**25.1%**	1728.9	**22.0%**	2109.3
(% of Net Sales)	33.7%		31.9%		31.0%		31.0%
- Staff Expenditure	316.6	**34.1%**	424.5	**7.7%**	457.3	**15.3%**	527.3
(% of Net Sales)	10.2%		9.8%		8.2%		7.8%
- Other Expenditure	1485.2	**42.1%**	2111.0	**31.9%**	2783.5	**22.7%**	3414.41
(% of Net Sales)	47.7%		48.7%		49.9%		50.2%
Total Expenditure	**2853.2**	**37.3%**	**3917.2**	**26.9%**	**4969.77**	**21.8%**	**6050.99**
PBDIT (Ops)	**262.2**	**58.4%**	**415.2**	**46.3%**	**607.3**	**24.0%**	**753.1**
(% of Net Sales)	8.4%		9.6%		10.9%		11.1%
Interest	61.3	**56.7%**	96.1	**17.0%**	112.5	**0.0%**	112.5
PBDT (Ops)	**200.8**	**58.9%**	**319.1**	**55.1%**	**494.9**	**29.4%**	**640.6**
(% of Net Sales)	6.4%		7.4%		8.9%		9.4%
Depreciation	109.9	**24.0%**	136.3	**8.2%**	147.4	**0.5%**	148.1
PBT (Ops)	**90.9**	**101.0%**	**182.8**	**90.1%**	**347.5**	**41.7%**	**492.493**
(% of Net Sales)	2.9%		4.2%		6.2%		7.2%
Other Income	89.3	**-0.9%**	88.5	**-41.2%**	52	**0.0%**	52
PBT	**180.2**	**50.5%**	**271.3**	**47.3%**	**399.5**	**36.3%**	**544.493**
Income Tax	42.8	**-11.8%**	37.8	**148.4%**	93.8	**51.0%**	141.7
(% of PBT)	23.8%		13.9%		23.5%		26.0%
Profit after Tax	**137.4**	**70.0%**	**233.5**	**30.9%**	**305.6**	**31.8%**	**402.8**
(% of Total Income)	4.3%		5.3%		5.4%		5.9%
Extra ordinary items	**56.1**	**60.7%**	**90.2**		***0**		***0**
Net Profit	**81.2**	**76.4%**	**143.3**	**113.3%**	**305.6**	**31.8%**	**402.8**
Equity Capital	155.5		254.6		254.6		254.6
EPS (Total)	5.2	**7.7%**	5.6	**113.3%**	12.0	**31.8%**	15.8
EPS (Pre Extra Ordinary Items)	**8.8**	**3.8%**	**9.2**	**30.9%**	**12.0**	**31.8%**	**15.8**
EBITDA per Share	16.9	**-3.3%**	16.3	**46.3%**	23.9	**24.0%**	29.6

Annexure: 2

VIP INDUSTRIES LTD - QUARTERLT PERFORMANCE									
Description (In Rs MM)	**Jun-07**	**Jun-06**	**Var %**	**Mar-07**	**Mar-06**	**Var %**	**Dec-06**	**Dec-05**	**Var %**
Net Sales	**1,545.3**	**1,038.9**	48.7%	**981.0**	**799.0**	22.8%	**793.9**	**720.5**	10.2%
Total Income	**1,550.7**	**1,058.7**	46.5%	**999.5**	**843.4**	18.5%	**806.2**	**725.0**	11.2%
- Consumption of Raw Material	803.5	659.7	21.8%	525.0	461.7	13.7%	514.7	452.2	13.8%
(% of Net Sales)	52.0%	63.5%		53.5%	57.8%		64.8%	62.8%	
- Staff Expenditure	116.9	82.3	42.0%	110.7	70.1	57.9%	100.4	76.1	31.9%
(% of Net Sales)	7.6%	7.9%		11.3%	8.8%		12.6%	10.6%	
- Other Expenditure	429.3	226.9	89.2%	267.8	194.4	37.8%	121.1	174.8	-30.7%
(% of Net Sales)	27.8%	21.8%		27.3%	24.3%		15.3%	24.3%	
Total Expenditure	**1,349.7**	**968.9**	39.3%	**903.5**	**726.2**	24.4%	**736.2**	**703.1**	4.7%
PBDIT (Ops)	**195.6**	**70.0**	179.4%	**77.5**	**72.8**	6.5%	**57.7**	**17.4**	231.6%
(% of Net Sales)	12.7%	6.7%		7.9%	9.1%		7.3%	2.4%	
Interest	28.7	19.0	51.1%	24.4	18.0	35.6%	34.1	13.4	154.5%
PBDT (Ops)	**166.9**	**51.0**	227.3%	**53.1**	**54.8**	-3.1%	**23.6**	**4.0**	490.0%
(% of Net Sales)	10.8%	4.9%		5.4%	6.9%		3.0%	0.6%	
Depreciation	37.6	24.9	51.0%	35.7	24.1	48.1%	28.3	24.7	14.6%
PBT (Ops)	**129.3**	**26.1**	395.4%	**17.4**	**30.7**	-43.3%	- **4.7**	- **20.7**	-77.3%
(% of Net Sales)	8.4%	2.5%		1.8%	3.8%		-0.6%	-2.9%	
Other Income	5.4	19.8	-72.7%	18.5	44.4	-58.3%	12.3	4.5	173.3%
PBT	**134.7**	**45.9**	193.5%	**35.9**	**75.1**	-52.2%	**7.6**	- **16.2**	-146.9%
Income Tax	27.0	4.2	542.9%	- 2.1	23.4	-109.0%	6.5	- 13.7	-147.4%
(% of PBT)	20.0%	9.2%		-5.8%	31.2%		85.5%	84.6%	
Profit after Tax	**107.7**	**41.7**	158.3%	**38.0**	**51.7**	-26.5%	**1.1**	- **2.5**	-144.0%
(% of Total Income)	6.9%	3.9%		3.8%	6.1%		0.1%	-0.3%	
Equity Capital	254.6	155.5	63.7%	254.6	155.5	63.7%	155.5	153.6	1.2%
EPS	4.23	2.68		1.49	3.32		0.1	- 0.16	
EBITDA per Share	7.7	4.50		3.04	4.7		3.7	1.13	

Annexure: 3

VIP INDUSTRIES LIMITED - BALANCE SHEET				
In Rs MM (March - Year Ending)	**FY06**	**FY07**	**FY08(E)**	**FY09(E)**
I. SOURCES OF FUNDS				
1. Shareholders' Funds:				
a) Capital	155.6	254.6	254.6	254.6
b) Reserves & Surplus	515.2	871.9	1084.6	1391.0
	670.8	1126.6	1339.2	1645.6
2. Loan Funds:				
a) Secured Loans	584.3	997.2	1044.6	1045.0
b) Unsecured Loans	365.7	139.7	139.2	139.2
	950.0	1136.8	1183.7	1184.2
4. Deferred Tax Liability	43.0	45.2	55.0	65.0
	43.0	45.2	55.0	65.0
Total	1663.8	2308.6	2577.9	2894.8
II. APPLICATION OF FUNDS				
1. Fixed Assets:				
a) Gross Block	1628.7	2164.4	2192.1	2202.1
b) Less: Depreciation	1125.2	1333.9	1481.3	1629.4
c) Net Block	503.5	830.5	710.8	572.7
d) Capital WIP	51.6	24.2	0.0	0.0
	555.1	854.6	710.8	572.7
3. Investments:	145.4	37.6	37.6	37.6
4. CA, Loans & Advances:				
a) Inventories	392.4	685.5	836.6	1020.6
b) Sundry Debtors	463.7	867.9	1115.4	1360.8
c) Cash & Bank Balances	32.9	65.9	200.3	365.7
d) Other Current Assets	49.0	59.3	69.0	79.0
e) Loans & Advances	444.3	392.1	438.3	478.5
	1382.2	2070.7	2659.6	3304.7
Less:				
5. Current Liabilities & Provisions				
a) Liabilities	453.5	696.7	836.0	1003.3
b) Provisions	50.3	91.0	94.0	97.0
	503.7	787.7	930.0	1100.3
Net Current Assets	878.5	1283.0	1729.5	2204.5
Miscellaneous exp	84.8	133.4	100.0	80.0
Total	1663.8	2308.6	2577.9	2894.8

Annexure: 4

VIP INDUSTRIES LIMITED - KEY RATIOS				
(March Year - Ending)	**FY06**	**FY07**	**FY08(E)**	**FY09(E)**
Liquidity Ratios				
Current Ratio	2.7	2.6	2.9	3.0
Acid Test Ratio	2.0	1.8	2.0	2.1
Cash Ratio	0.0	0.0	0.1	0.1
Leverage Ratios				
Debt : Equity	1.4	1.0	0.9	0.7
Debt : Asset	0.6	0.5	0.5	0.4
Interest Coverage Ratio	2.5	2.9	4.1	5.4
Turnover Ratios				
Raw Material : Sales	0.3	0.3	0.3	0.3
Labour/Staff : Sales	0.1	0.1	0.1	0.1
Inventory Turnover	12.8	6.3	5.5	5.5
Debtors Turnover	13.4	6.5	5.6	5.5
Fixed Assets Turnover	5.6	5.1	7.8	11.9
Sales : Gross Fixed Assets	1.9	2.0	2.5	3.1
Working Cap Turnover	3.5	3.4	3.2	3.1
Inventory Days	46	58	55	55
Debtor Days	54	73	73	73
Creditor Days	157	184	177	182
Sales : Net Working Capital	3.5	3.4	3.2	3.1
Profitability Ratios				
Operating Margin	8.4%	9.6%	10.9%	11.1%
Net Profit Margin	4.4%	5.4%	5.5%	5.9%
ROA	9.8%	7.2%	12.5%	14.7%
RONW	20.5%	20.7%	22.8%	24.5%
Earning Power (PBIT/Avg tot ass)	18.3%	14.0%	18.8%	22.1%
ROCE	14.0%	12.1%	14.4%	16.4%
EPS growth	11.6%	3.8%	30.9%	31.8%
Valuation Ratios				
P/E			11.5	8.7
PEG			37.2	27.4
EV : Sales			0.8	0.6
EV : EBIDTA			7.4	5.8
Market Cap : Sales			0.6	0.5
Market Cap : EBIDTA			5.8	4.7
Price : Book Value			2.6	2.1
Price : Cash Earnings			7.8	6.4

DISCLAIMER

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