

Short-term Troubles Continue; Maintain HOLD
Est. Vs. Actual for Q2FY25: Revenue – MISS; EBITDA – MISS; PAT – MISS
Changes in Estimates post Q2FY25
FY26E/FY27E: Revenue: -8%/-5%; EBITDA: -21%/-18%; PAT: -30%/-19%
Recommendation Rationale

- Subdued Performance:** VIP Industries delivered a lacklustre performance in Q2FY25, with revenue remaining flat, impacted by sluggish demand from traditional channels (MT) amid aggressive e-commerce pricing during major sales events like the Big Billion Day sale. However, volume growth stood at 18%, driven by price cuts in soft luggage. The management expects the gap between volume and value growth to stabilise at around 8-10%. On a positive note, the company continues to gain market share despite these challenges, currently holding a 40% share, up from 36% in FY24.
- Margins Pressure:** Gross margins declined by 1,043 bps to 45.1%, driven by lower realisations, negative channel mix, reduction in soft luggage inventory, and decreased production in Bangladesh. EBITDA margins also contracted due to the gross margin reduction and higher warehouse costs from excess inventory. However, the management remains optimistic, expecting profitability to improve by H2FY25, supported by the festive and wedding season. They anticipate gross margins to reach 50% for FY25 and 55% in FY26, with EBITDA margins gradually increasing to 3%-4% in Q3 and 12% in Q4FY25.
- Transformational Strategy to Reduce Overall Inventory:** As part of its transformational strategy to streamline inventory in FY25, VIP Industries has reduced its total soft luggage inventory by Rs 174 Cr so far, with Rs 50 Cr cleared in Q2FY25. The company is confident that by the end of Q3/Q4, its old soft luggage inventories will be further reduced. Additionally, management aims to reduce debt by Rs 100 Cr by the end of FY25, down from the current Rs 500 Cr.

Sector Outlook: Cautiously Positive

Company Outlook & Guidance: Although the company's long-term strategy—focusing on premiumisation and improving efficiencies—remains intact, this strategy has a longer gestation period and would take more time to yield results. Consequently, we maintain a "wait and watch" approach as we look for sustained signs of recovery in overall performance.

Current Valuation: 30x Dec'26 EPS vs. (Earlier - 30x Jun'26 EPS)

Current TP: Rs. 440/share (Earlier Rs 490/share)

Recommendation: With a 7% downside from the CMP, we maintain our HOLD rating on the stock.

Financial Performance

VIP Industries posted weak results in Q2FY25, with revenue at Rs 544 Cr, down 0.3% YoY. Gross margins contracted by 1,043 bps to 45.1%, while EBITDA margins declined by 1,008 bps YoY to -0.4%. This was primarily due to subdued gross margin performance driven by an unfavourable mix and higher discounts, along with an increase in ad spend and overhead costs due to additional warehousing from high inventory levels. The company reported a net loss of Rs 33 Cr.

Outlook: Although the company's long-term strategy—focusing on premiumisation and improving operational efficiencies—remains intact, the execution of this strategy has a longer gestation period and will take time to yield significant results. Consequently, a "wait and watch" approach is maintained as we look for sustained signs of recovery in the company's overall performance.

Valuation & Recommendation: We maintain our HOLD rating on the stock and value the company at 30x Dec-26 EPS with a revised TP of Rs 440/share.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	544	(14.8)	(0.3)	0	0
EBITDA	(2)	(104.4)	(104.1)	(613)	(99.6)
EBITDA Margin	(0.4)	-813 bps	-1008 bps	0	0
Net Profit	(37)	(986.9)	(375.8)	(580)	(93.7)
EPS (Rs)	(2.3)	(900.2)	(348.9)	(41.1)	(94.3)

Source: Company, Axis Research

 (CMP as of 24th October 2024)

CMP (Rs)	471
Upside /Downside (%)	-7%
High/Low (Rs)	668/427
Market cap (Cr)	6,701
Avg. daily vol. (6m) Shrs.	881
No. of shares (Cr)	14.2

Shareholding (%)

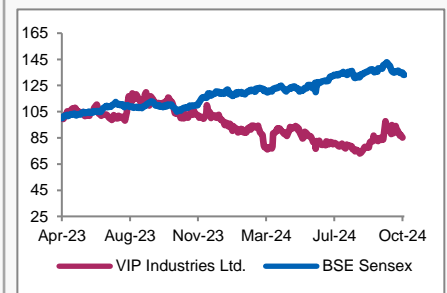
	Mar-24	Jun-24	Sep-24
Promoter	51.8	51.8	51.7
FIIIs	8.1	7.3	7.8
DIIIs	9.3	10.0	9.0
Retail Others	0.0	0.0	0.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	2,402	2,762	3,204
EBITDA	153	348	413
Net Profit	7	156	207
EPS, Rs	0.5	11.0	14.6
PER, x	973.5	42.9	32.4
ROE, %	1.0	19.9	21.5

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-8%	-5%
EBITDA	-21%	-18%
PAT	-30%	-19%

Relative performance


Source: AceEquity, Axis Securities

PreeyamTolia

Research Analyst
 email: preeyam.tolia@axissecurities.in

Suhaneeshome

Research Associate
 email: suhaneeshome@axissecurities.in

Key Highlights

- **Segmental Performance:** VIP Industries' premium segment contributed 52% of revenue in Q2FY25, with plans to push this to 60%, as premium products yield margins 800-1,000 bps higher. Carlton's strong performance is driving the company's premiumisation strategy, showing promising results, and with upcoming launches, its share is expected to grow further. While the VIP brand saw growth, Skybags lagged due to a weaker mix of backpacks. Management indicated a stronger focus on the VIP brand over Aristocrat, especially in offline channels, as gross margins for VIP are over 800 bps higher. The Kiara collection performed well, and hard luggage remains the fastest-growing category, contributing over 60% of total revenue.
- **International Business:** The International Business segment was impacted by the underperformance in key countries across Asia and the GCC, which account for a significant portion of sales. However, management remains optimistic, noting that the Bangladesh factory is now operating at full capacity and is expected to turn profitable starting from Q3FY25.
- **Channels:** E-commerce, which contributes 45% of VIP Industries' revenue, maintained its strong growth, surging 54% YoY. General Trade (GT) accounted for 11%, and Modern Trade (MT) made up 18% of the company's overall sales.
- **New Launches:** Management indicated that new backpack launches are on track for the upcoming season, which is expected to boost revenues. They also highlighted several strategic initiatives in the pipeline, aimed at gradually enhancing margins in the near future.

Key Risks to Our Estimates and TP

- Weak demand
- Inability of the company to maintain its margins
- Loss of market share to competitors
- Any change in taxation policies and international duties with respect to Bangladesh and China.

Change in Estimates

	Revised		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY27E	FY27E
Revenue	2,995	3,384	2,762	3,204	-8%	-5%
EBITDA	442	502	348	413	-21%	-18%
PAT	222	256	156	207	-30%	-19%
EPS	15.6	18	11.0	14.6	-30%	-19%

Source: Company, Axis Securities

Results Review

	Q2FY24	Q1FY25	Q2FY25	% Change (YoY)	% Change (QoQ)
Net Sales	546	639	544	(0.3)	(14.8)
Gross Profit	303	283	245	(19.1)	(13.4)
Gross Margin (%)	55.5	44.3	45.1	-1043 bps	76 bps
Employee Expenses	66	59	58	(12.8)	(2.0)
Other Expenses	184	175	190	3.1	8.5
EBITDA	53	49	(2)	(104.1)	(104.4)
EBITDA Margin (%)	9.7	7.7	(0.4)	-1008 bps	-813 bps
Oth. Inc	3	2	3	3.1	28.6
Interest	12	18	20	62.7	8.9
Depreciation	24	29	30	24.1	1.2
PBT	19	4	(49)	(355.3)	(1,394.5)
Tax	6	(0)	(13)	(309.7)	3,706.1
PAT	13	4	(37)	(375.8)	(986.9)
EPS	0.9	0.3	(2.3)	(348.9)	(900.2)

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net sales	2,245	2,402	2,762	3,204
Growth, %	30.5	7.0	15.0	16.0
Total income	2,245	2,402	2,762	3,204
Raw material expenses	(1,064)	(1,201)	(1,326)	(1,538)
Employee expenses	(270)	(288)	(249)	(288)
Other Operating expenses	(718)	(759)	(840)	(965)
EBITDA (Core)	194	153	348	413
Growth, %	(34.1)	(20.8)	127.2	18.7
Margin, %	8.6	6.4	12.6	12.9
Depreciation	(99)	(100)	(111)	(115)
EBIT	94	53	238	298
Growth, %	(55.2)	(43.8)	349.4	25.4
Margin, %	4.2	2.2	8.6	9.3
Interest paid	(55)	(61)	(57)	(55)
Other Income	12	17	28	32
Non-recurring Items	26	-	-	-
Pre-tax profit	77	9	208	275
Tax provided	(22)	(2)	(52)	(69)
Profit after tax	54	7	156	207
Growth, %	(82.5)	(75.9)	2,168.1	32.6
Net Profit (adjusted)	54	7	156	207

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Cash & bank	46	14	64	171
Marketable securities at cost	1	1	1	1
Debtors	328	377	437	494
Inventory	916	1,053	1,221	1,380
Other current assets	142	142	142	142
Total current assets	1,432	1,587	1,865	2,187
Investments	2	2	2	2
Gross fixed assets	664	759	849	939
Less: Depreciation	(132)	(228)	(329)	(443)
Add: Capital WIP	13	13	13	13
Net fixed assets	546	544	534	510
Non-current assets	86	86	86	86
Total assets	2,067	2,219	2,488	2,786
Current liabilities	1,090	1,151	1,225	1,296
Provisions	-	-	-	-
Total current liabilities	1,090	1,151	1,225	1,296
Non-current liabilities	299	299	299	299
Total liabilities	1,389	1,450	1,525	1,595
Paid-up capital	28	28	28	28
Reserves & surplus	650	741	935	1,162
Shareholders' equity	678	769	963	1,190
Total equity & liabilities	2,066	2,219	2,487	2,786

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Profit Before Tax	77	9	208	275
Adjustments for :				
Depreciation and Amortization Expenses	99	100	111	115
Interest Paid	55			
Unwinding of interest on security deposit paid	(3)			
Amortization of prepaid rent on discounting of security deposit paid	-			
Changes in fair value of financial assets at fair value through profit or loss	-			
Obsolescence of Fixed Assets	0			
Bad Debts Written Off	0			
Provision for Bad and Doubtful Deb	4			
Employee Stock Appreciation Rights	8			
Loss on Translation	(1)			
Loss / (Surplus) on Sale of Investment	-			
Dividend Income	-			
Interest received	(3)			
Income from Investment Property	(0)			
Loss / (Profit) on Sale of Assets, Property, Plant & Equipment (net)	(2)			
Excess Provision Written back	-			
Net Exchange differences (unrealized)	(0)			
Operating Profit Before Working Capital Changes	235	110	318	391
Adjustments for :				
Trade receivables	(78)	(23)	(53)	(64)
(Decrease)/Increase in Trade Payables	104	28	65	80
(Decrease)/Increase in Other Liabilities	(8)			
(Decrease)/Increase in Provisions	6			
Increase/(Decrease) in Other Assets	(35)			
Decrease/ (Increase) in Inventories	(329)	(64)	(147)	(180)
Cash Flow Generated from Operations	(104)	51	184	226
Direct taxes paid	(28)	(2)	(52)	(69)
A) Net Cash Flow from Operating Activities	(132)	49	132	157
B) CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of PPE and intangible assets	(100)	(95)	(95)	(95)
Proceeds on the sale of PPE and intangible assets	1			
Purchase of Investments	23			
Dividend Income	-			
Interest received	0			
Net Cash Used in Investing Activities	(76)	(95)	(95)	(95)
C) CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds / (Repayment) of Long Term Borrowings (Net)	-			
Proceeds/(Repayment) of Short Term Borrowings	352			
Finance Cost paid	(33)			
Principal payment of Lease Liabilities	(50)			
Interest payment of Lease Liabilities	(22)			
Dividends paid	(29)	(28)	(28)	(28)
Dividend Distribution Tax paid	-			
Other	0			
Net Cash Used in Financing Activities	218	(28)	(28)	(28)
Net Increase/ (Decrease) in Cash and Cash Equivalents	10	(75)	9	34
Cash and cash equivalents as of 1st April	33	43	(31)	(22)
Cash and cash equivalents as of 31st March	43	(31)	(22)	11

Source: Company, Axis Securities

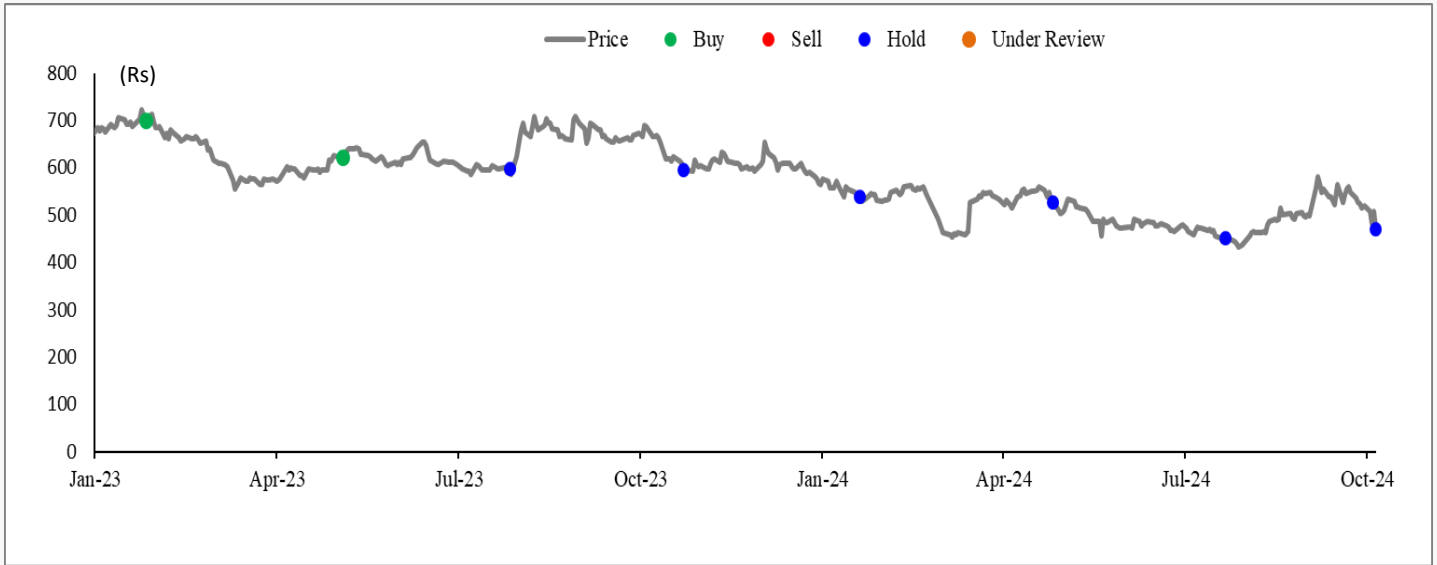
Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
EPS (INR)	3.8	0.5	11.0	14.6
Growth, %	(82.6)	(75.9)	2,168.1	32.6
Book NAV/share (INR)	47.7	46.2	55.2	67.8
FDEPS (INR)	2.0	0.5	11.0	14.6
CEPS (INR)	7.2	7.6	18.8	22.7
CFPS (INR)	(13.6)	2.3	7.4	8.8
Return ratios				
Return on assets (%)	6.3	3.2	9.8	10.9
Return on equity (%)	4.2	1.0	19.9	21.5
Return on capital employed (%)	12.4	7.0	20.9	22.3
Turnover ratios				
Asset turnover (x)	2.0	1.7	1.8	1.9
Sales/Total assets (x)	1.3	1.2	1.3	1.3
Sales/Net FA (x)	5.2	4.4	5.2	6.2
Working capital/Sales (x)	0.1	0.1	0.2	0.2
Receivable days	53.3	53.3	53.3	53.3
Inventory days	148.9	148.9	148.9	148.9
Payable days	72.4	70.7	75.7	76.0
Working capital days	48.0	53.8	64.5	74.4
Liquidity ratios				
Current ratio (x)	1.3	1.3	1.4	1.5
Quick ratio (x)	0.5	0.4	0.4	0.5
Interest cover (x)	1.7	0.9	4.1	5.5
Valuation				
PER (x)	234.4	973.5	42.9	32.4
PEG (x) - y-o-y growth	(2.8)	(12.8)	0.0	1.0

Source: Company, Axis Securities

VIP Industries Price Chart and Recommendation History



Date	Reco	TP	Research
30-Jan-23	BUY	850	Result Update
10-May-23	BUY	730	Result Update
04-Aug-23	HOLD	625	Result Update
02-Nov-23	HOLD	600	Result Update
01-Feb-24	HOLD	590	Result Update
13-May-24	HOLD	570	Result Update
08-Aug-24	HOLD	490	Result Update
25-Oct-24	HOLD	440	Result Update

Source: Axis Securities

Axis Securities Limited is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector banks and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

Axis Securities Limited, is registered as a

- Stock Broker, Depository Participant, Portfolio Manager, Investment Adviser and Research Analyst with Securities and Exchange Board of India
- Corporate Agent with Insurance Regulatory and Development Authority of India
- Point of Presence with Pension Fund Regulatory and Development Authority
- Distributor for Mutual Funds with AMFI

Registration Details:

SEBI Single Reg. No.- NSE, BSE, MSEI, MCX & NCDEX – INZ000161633 | SEBI Depository Participant Reg. No. IN-DP-403-2019 | Portfolio Manager Reg. No.- INP000000654 | Investment Advisor Reg No. INA000000615 | SEBI-Research Analyst Reg. No. INH000000297 | IRDA Corporate Agent (Composite) Reg. No. CA0073| PFRDA – POP Reg. No. POP387122023 | Mutual Fund Distributor ARN- 64610.

Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However, SEBI, Exchanges, Clearing Corporations and Depositories etc. have conducted the routine inspection and based on their observations have issued advise/warning/show cause notices/deficiency letters/ or levied penalty or imposed charges for certain deviations observed in inspections or in normal course of business, as a Stock Broker / Depository Participant/Portfolio Manager. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

By referring to any particular sector, Axis Securities does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors. Our research should not be considered as an advertisement or advice, professional or otherwise. This research report and its respective content by Axis Securities made available on this page or otherwise do not constitute an offer to sell or purchase or subscribe for any securities or solicitation of any investments or investment services for the residents of Canada and / or USA or any jurisdiction where such an offer or solicitation would be illegal.

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by ASL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The information and opinions in this report have been prepared by Axis Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Axis Securities. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite, investment objective or the particular circumstances of an individual investor. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing.

While we would endeavour to update the information herein on a reasonable basis, Axis Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Axis Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Axis Securities policies, in circumstances where Axis Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained in good faith from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Axis Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Axis Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Axis Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months. Axis Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction. Axis Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months. Axis Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Axis Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Axis Securities nor Research Analysts and / or their relatives have any material conflict of interest at the time of publication of this report. Please note that Axis Securities has a proprietary trading desk. This desk maintains an arm's length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Research Analyst may have served as an officer, director or employee of subject company(ies). Axis Securities or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report. Since associates of Axis Securities and Axis Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. Axis Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centres on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Axis Securities may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. This should not be construed as invitation or solicitation to do business with Axis Securities. Axis Securities is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation.

RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.