VIP Industries

Green shoots emerging but revenue and margin normalization still 5-6 quarters away

- ✓ **View** – VIP Industries reduced the extent of losses, but that was on the back of aggressive cost cutting as revenue recovery remains muted at 56%. While the company has done a good job of bringing down inventory and managing cash flows, sharp rise in input costs and high competitive intensity can lead to further delays in revenue and EBITDA normalization, which in any case is expected in 1QFY23. With Bangladesh production back on track, should see gradual improvement in gross margins which should be offset by increase in costs. Stock can underperform in the near term given current valuations at 33x FY23E earnings, which are at risk of some downgrades.
- ✓ **Result highlights** – Revenue recovered to 56% of last year's levels (125% qoq growth), with gross margins at 41% (vs 53% yoy and 42% qoq) due to higher discounts and high mix of production from India vs Bangladesh. Employee cost reduction of 46% and 51% yoy helped generate positive EBITDA with 8% margin (vs 16% yoy and -16% qoq); Net loss at 7cr vs 35cr qoq and profit of Rs 34cr yoy.
- ✓ **Outlook** – Expect 4Q to see some more recovery, pleased with demand uptick which has set platform for a much better FY22; reopening of schools, pick-up in travel and a good marriage season should drive demand.
- ✓ **Other highlights** – Production has started in full swing in 3Q with Rs 27cr revenue and 1cr loss; working capital has improved by 105cr to 274cr vs 379cr yoy and with PBT loss of 97 crs in 9M, have been able to maintain flattish net cash of 71cr at Dec-end.
- ✓ **Margin outlook** – Margins will remain for next few quarters with normalization expected only in FY23; RM prices have risen sharply by 60-70% which should come down soon, will take pricing action depending on competitive intensity; will try and maintain gross margins in 45-50% range for FY22.
- ✓ **Drivers of demand recovery** – Recovery is closely tracking recovery in domestic air traffic; others drivers were a recovery in wedding and gifting market; schools segment is lagging behind.
- ✓ **Inventory update** – Currently at 300cr as of now post decent reduction, now both factories are running full.
- ✓ **Fixed cost outlook** – Overall fixed cost will remain at Rs 25cr per month vs Rs 40cr pre-COVID; cut of 180cr in FY21 of which 50% will come back in FY22.
- ✓ **Export outlook** – See strong opportunity in international markets, new MD's experience in global markets should help.
- ✓ **Channel mix** - GT channel is slower than other channels; e-commerce doing well now contributing 25% of sales which should settle around 20%.
- ✓ **Receivables position** - Receivables position comfortable at 50% of pre-COVID levels, don't foresee any risk apart from Big Bazaar where Rs 35cr is outstanding, have starting receiving in January, carrying a 8cr provision for receivables and inventory.

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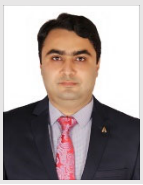

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