

India

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Not Rated

Retail

VIP Industries – management meet update

- Management sounded sanguine on current demand and sees 2Q momentum (25%+ growth over pre-Covid period) continuing in 3QFY23F as well.
- Management feels the benefits from supply-side initiatives (automation, increasing own manufacturing) give VIP Industries a war chest to tackle competition at the mass-end market segment without margin dilution.
- Margins in 3QFY23F to remain range-bound, as per management, while it expects 4QFY23F EBITDA margin to be in the 18-20% range.

What has changed at VIP?

- **More professionally run:** With new hires, across divisions, at senior/mid-senior levels and having devised an ESOP program as well, promoter involvement in managing the business has reduced.
- **Focus on market share gains:** The company is now aggressively participating in the fast-growing value segment which is a beneficiary of the shift from the unorganized segment (please refer our earlier report: [Prioritizing market share over margins](#)).

Demand: Value segment doing good; mid-premium picking up

- The mid-premium segment is picking up gradually with an uptick in international travel. There has been a positive momentum in VIP/Skybags over the last two months. Aristocrat brand is doing well – it's not downtrading leading to growth but a shift from the unorganized segment to low-priced brands.

Replacement cycle for GenZ is shorter

- Management suggested that the replacement cycle for Gen-Z (Skybags) is close to three years vs. five-to-seven years normally. The company plans to launch a scheme to exchange old bags of any brand for claiming a discount on its new luggage. This will be launched pan-India and is expected to aid customer conversion.

Capacity: Targeting 1.5m pieces per month (20% increase)

- Nashik and Bangladesh facilities currently have capacity of c.0.5m/0.75m pieces per month, respectively. Management aims to take this to 1.5m pieces per month in total with an estimated outlay of Rs1bn in FY23F. Extending factory shifts by four hours in India is unviable as the company must pay c.2x more wages for the extra four hours.

Ad spends: Focusing on smaller campaigns

- Celebrity endorsements have been cut back and the focus is on smaller campaigns and tapping social media influencers. Ad spending is likely to remain in the 5-5.5% range.

Backpacks: Big TAM but gaining market share is a laborious task

- VIP Industries' senior team recently did a survey of small towns and found out that the total addressable market (TAM) for low-priced bags (Rs200-Rs350) is huge and completely dominated by the unorganized players. The company does not sell any backpacks under Aristocrat brand but some action is possible, looking at the opportunity.

Caprese: Targeting both mass and premium (Rs5bn brand in 3 years)

- VIP Industries will be launching sub-brands like Caprese Girl, targeting college-going students at the mass-end (starting from Rs1,000 ASP) and will also have a limited edition (like Manish Malhotra collection, priced above Rs10,000) at the premium-end. Gross margin in Caprese is higher vs. backpacks but similar to that of VIP/Skybags.

E-commerce: Catching up, gradually

- VIP currently ranks #3 in e-commerce salience, while Safari leads the pack owing to its early focus and better SEO resulting in higher user reviews and related content.

White label opportunity: On backburner for now

- Progress has been slow. The company needs new facilities if fresh contracts are won.

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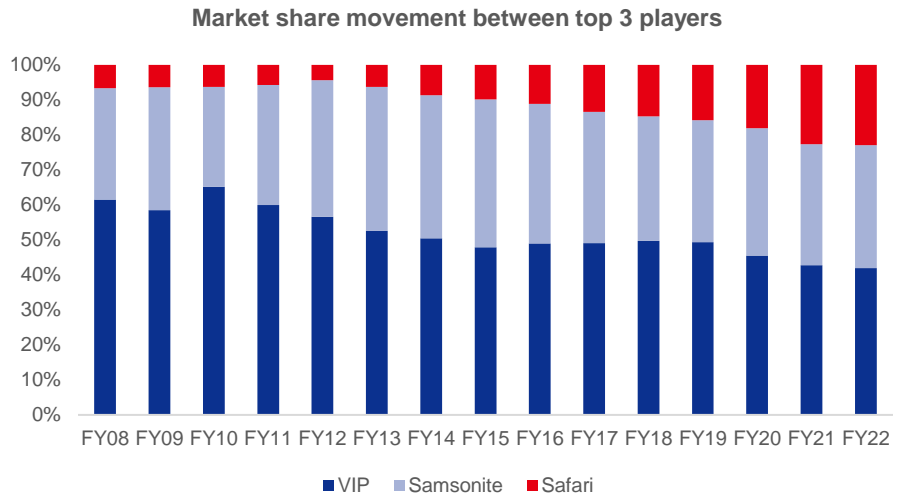
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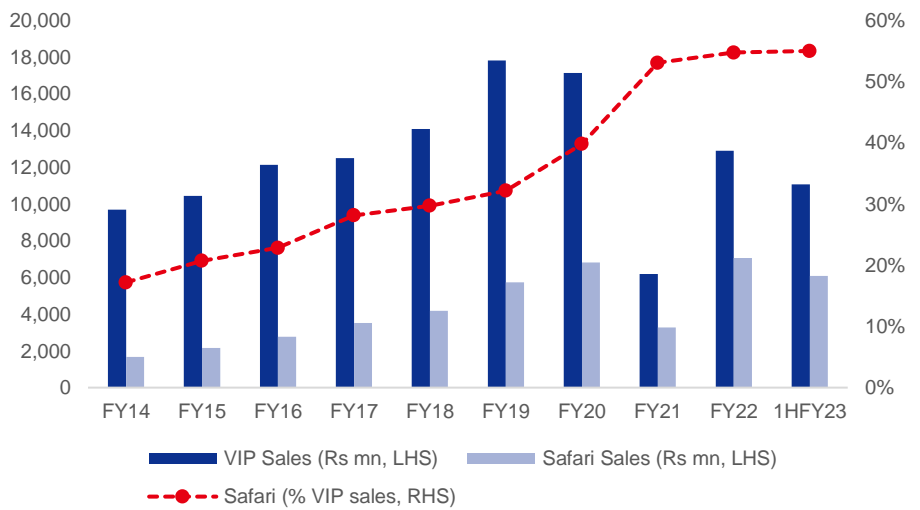
Key charts

Figure 1: VIP Industries' focus is on regaining lost market share



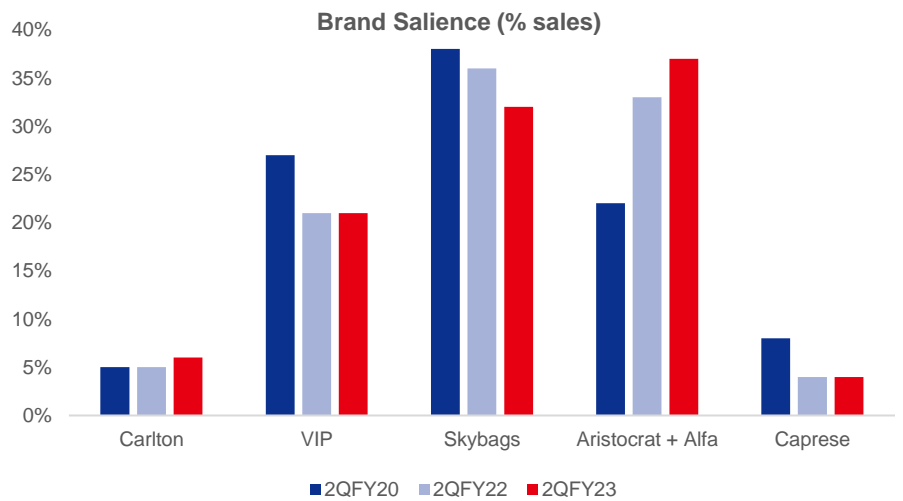
NOTE: DATA FOR SAMSONITE IS FOR CALENDAR YEAR
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Safari gained a massive market share in FY21; VIP recovered well led by its focus on the value segment



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Salience of Value brands (Aristocrat and Alfa) has increased significantly



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Comparison of VIP Industries' value segment revenue vs. Safari

Particulars	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Aristocrat & Alfa (Rs mn)	639	1,089	1,550	1,281	2,067	1,905
QoQ Growth (%)		70%	42%	-17%	61%	-8%
Safari (Rs mn)	1,202	1,886	2,039	1,928	2,930	3,146
QoQ Growth (%)		57%	8%	-5%	52%	7%
Aristocrat & Alfa (% Safari's revenue)	53%	58%	76%	66%	71%	61%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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