



This luggage stock can turn out to be a dark horse at CMP

After almost a year, we upgraded VIP to a BUY after seeing a silver lining in the last quarter's results. Prima facie, the quarter was sub-par with top-line declining 8.3% YoY and bottom-line being in red with a loss of Rs124mn. So, where exactly does the silver lining lie? We try to decode that for you in today's edition.

What was the silver lining in VIP's results?

We believe the silver lining in VIP's results was 18.3% YoY decline in other expenses to a 7-quarter low of Rs1,502mn. Key cost heads under "other expenses" bucket predominantly consist of A&P spends, freight, and human resource procurement (sub-contracted labour). As can be seen in the table below, over the last few quarters, other expenses were elevated as VIP had stock-piled SL inventory.

Exhibit 1: Other expenses were at a 7-quarter low in 3QFY25

Particulars (In Rs mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Other expenses	1,678	1,841	1,838	1,824	1,750	1,896	1,502
As a % of sales	26%	34%	34%	35%	27%	35%	30%

Source: Company, PL

Higher inventory led to increase in warehousing and freight cost. It also stretched the working capital cycle and debt on BS also increased (Rs5,328mn in FY24 from Rs1,810mn in FY23) resulting in higher interest outgo.

Exhibit 2: Inventory & Debt position of VIP

Particulars (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Inventory	5,871	9,157	7,007	5,778	6,471
Inventory Days	103	149	115	85	85
Debt	1,810	5,328	4,228	1,728	1,028

Source: Company, PL

However, in 3QFY25, other expenses settled to a 7-quarter low of Rs1,502mn. The moot question here is to understand whether this improvement has an element of one-off or is this an early signal of re-alignment in cost structure. We believe it is latter as VIP has managed to liquidate Rs2,240mn of inventory in 9MFY25. Consequently, inventory linked cost (warehousing, freight etc) may have come down. Currently, VIP has Rs800-1,000mn of SL inventory and we believe it might take a quarter or two for full liquidation. Once that happens, warehousing and interest cost would automatically settle to a lower base. Refer to the table below to get an idea how these costs got inflated as inventory pile up happened.

Exhibit 3: Freight & interest cost movement of VIP

Particulars (Rs mn)	FY20	FY23	FY24
Freight & Octroi	1,007	1,418	2,087
Interest cost	25	98	243

Source: Company, PL

Note: COVID period excluded to give you the right picture

Thus, as far as freight, warehousing and interest outgo is concerned there is a clear reason to believe that a downward reset is on the cards. Nonetheless, it is difficult to take a call on A&P cost (critical component of other expenses) given the prevailing competitive scenario. Just to give you an idea, VIP's A&P spends have increased from Rs916mn (5.3% of sales) in FY20 to Rs1,848mn (8.2% of sales) in FY24 due to rising competition. If VIP is able to contain A&P spends by reducing the price support for e-com channels without compromising growth; a perfect re-rating scenario can emerge.

Our view

Apart from trying to manage the A&P spends which is a strategic call, critical cost heads in "other expenses" bucket are set to decline in an auto-pilot mode once SL inventory liquidation exercise gathers pace. The key now is to find a solution to get to an 8-10% growth trajectory soon. If VIP is able to crack the growth CODE, re-rating should follow. At CMP, one could be a quarter early into the trade. Currently, an investor has clarity over cost structure, however, comfort on growth is still missing. Nonetheless, we believe risk-reward is favourable as stock is available at 24x FY27E EPS. Maintain BUY with a TP of Rs463.

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	1,064	767
2	Delhivery	Hold	340	315
3	DOMS Industries	BUY	3,370	2,637
4	Imagicaaworld Entertainment	BUY	108	71
5	Indian Railway Catering and Tourism Corporation	Hold	809	751
6	InterGlobe Aviation	BUY	5,246	4,162
7	Lemon Tree Hotels	BUY	175	145
8	Mahindra Logistics	Hold	399	354
9	Navneet Education	Hold	150	140
10	Nazara Technologies	BUY	1,201	985
11	PVR Inox	Hold	1,215	1,090
12	S Chand and Company	BUY	305	189
13	Safari Industries (India)	BUY	2,783	2,383
14	TCI Express	BUY	1,021	791
15	V.I.P. Industries	BUY	463	374
16	Zee Entertainment Enterprises	Hold	137	121

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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