



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

VIP INDUSTRIES

WHAT WE LIKE

OLIGOPOLY MARKET

More than 60% of the luggage market in India is unorganized. The organized luggage industry in India is an oligopolistic market where Samsonite, VIP and Safari together form 95% of the branded luggage space. In such markets which also have a high degree of unorganized share, there is always a strong tailwind for consumer shift from the unorganized to organized segment.

STRONG BRAND AND MARKET SHARE

VIP is the number one brand in the luggage industry with an expected organized market share of over 50%. Carefully strategized marketing and promotion activity has created a differentiated brands for VIP over the years such as:

- **Skybags** is the largest luggage and backpack brand in the country for 3 years in a row now.
- **Aristocrat**, the value brand, was the fastest-growing brand for the company.
- **Carlton** brand helps VIP tap the high-end market where customers are willing to pay a premium for good bags.
- **Caprese**, the ladies bag brand, has the famous celebrity Alia Bhatt as the brand ambassador. It resonates very well with the Indian consumers.
- **ALFA** is the value brand from VIP which is available in both hard and soft luggage.

MULTIPLE DISTRIBUTION CHANNELS

In the past, the company was dependent on Canteen Sales Department (CSD) of Govt. Now with the growth in sales through multiple channels like e-commerce, hypermarkets, general trade channel, company owned stores and exclusive franchise stores, VIP has managed to diversify adequately and reduce dependence on any particular channel.

In the E-commerce channel, which has developed well in the pandemic, VIP aims to gain a big market share in low end luggage side to capture the demand which is unfulfilled by the unorganized sector currently.

REDUCING CHINESE IMPORTS

The vast majority of VIP's soft luggage used to be imported from China pre-COVID. During the pandemic, the company concentrated on increasing the manufacturing of soft luggage in its Bangladesh unit. This has resulted in reducing Chinese imports to less than 10% of requirements and also in margin appreciation for VIP as the products from Bangladesh are made at a 15% lower cost vs importing from China.

WHAT WE DON'T LIKE

DEPENDENCE ON CHINA

The company used to import almost all of its soft luggage from China. It has replaced this entire import dependence on China for finished soft luggage from its new plant in Bangladesh where it sees a 15% savings in costs. But the raw material for the soft luggage is still being imported from China and this is proving difficult to replace for VIP.

HIGH DEPENDENCE ON AIR TRAVEL

Branded luggage demand is linked directly to air travel. Air travel was one of the worst-hit industries by COVID-19 which also saw volumes dry up for VIP.

Although air travel has picked up in the past year, the branded luggage industry remains highly dependent on the air travel industry.

Any fall in the air travel trends or volumes in the country will have a direct negative impact on the organized luggage industry and VIP.

CURRENCY RISK

Majority of raw materials are imported. The weakening of INR against USD puts pressure on margins and profitability. The Company has to mitigate these challenges by way of cost optimization and increase in consumer price.

TOUGH COMPETITION FROM SAFARI

While VIP has grown its sales at a CAGR of 11% in the last 5 years before the pandemic, Sales for Safari has grown at a CAGR of 27% in the same period. By keeping its margin low, Safari is gaining a lot of ground in the past few years. This has been the go to strategy for Safari on the e-commerce space and has led to good market share for Safari in the channel. But this can hurt either margin or growth or both for VIP in the e-commerce marketplaces where these brands are competing directly.

REGENCY BIAS IN MANAGEMENT OUTLOOK

Although the management of VIP has proved its capabilities time and again in the past, it is also guilty of exhibiting recency bias and being overly optimistic in good times like in Q1FY19 and overly pessimistic like in the past few quarters.

We, at Smart Sync, believe that the actual situation of VIP lies between the above mentioned extremes and asks investors to take any exuberant management guidance in a conservative and rational manner.

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