CRISIL Ratings

Press release

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Luggage makers to get a ‘hard’ ~15% revenue lift this fiscal

Organised ones to gain from changing consumer preference and continued growth in travel

India’s luggage industry revenue is set to rise ~15% on-year this fiscal — despite a high-base effect of 40% growth last fiscal — owing to rising penetration of hard luggage made by the organised sector, and continuing growth in tourism and corporate travel.

The consumer preference for hard luggage has driven up operating efficiencies and improved capacity utilisation of the organised sector. That, in turn, should expand their operating margin 150-200 basis points (bps) on-year to ~16% this fiscal.

But for higher marketing and promotional expenditure by organised players, margin improvement would have been much sharper as prices of key raw materials — polypropylene, polycarbonate, and polyamide — declined almost 20%. For the record, the key raw materials prices are largely crude price driven, and comprise 40-45% of the cost for luggage makers.

Improved profitability and lean balance sheets will support credit risk profiles, despite planned capacity enhancement.

A CRISIL Ratings analysis of luggage makers it rates, accounting for 90% of the organised sector’s revenue, indicates as much.

Organised luggage makers have ~40% share of the ~Rs 15,000 crore annual sales of the industry. They benefit from relatively stronger sourcing channels, competitive pricing, better quality and extended warranties.

On their part, consumers are shifting towards hard luggage because of better looks and durability. They are also getting lighter in weight, which is a key consideration in travel. Consequently, organised luggage makers have been proactively turning their revenue mix towards hard luggage across retail and online.

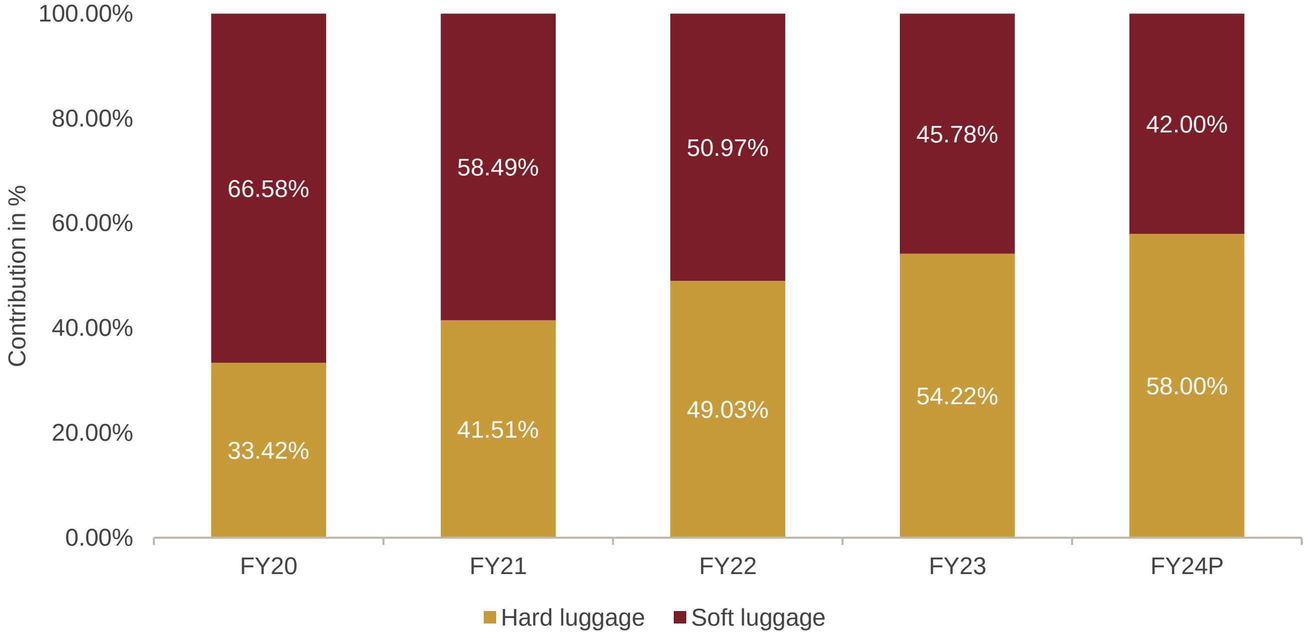
Says Jaya Mirpuri, Director, CRISIL Ratings, “In the past five fiscals, the market share of hard luggage has shot up to ~55% from 33%. Operating margins are relatively better on them since these are manufactured locally. On the other hand, the fragmented unorganised sector largely imports soft luggage from China. They have been impacted by supply-chain disruptions and implementation of the Goods and Services Tax, leading to loss of market share.”

With utilisation at full tilt, organised manufacturers are looking at expanding capacity as well as their retail networks.

Says Rushabh Borkar, Associate Director, CRISIL Ratings, “Apart from doubling capacity, organised manufacturers are set to ramp up retail presence by 35-40%, which would involve a capital expenditure of ~Rs 700 crore this fiscal. While this will increase their debt levels, overall capital structure and coverage metrics will not be materially impacted because of improved cash accruals. Gearing and interest coverage of our sample set will remain comfortable at 0.6 time and 11.5 times, respectively.’’

The industry’s fortunes hinge on travel trends. Any decline thereof, and sharp volatility in the prices of crude oil-derived inputs will bear watching.

Annexure
Contribution of soft and hard luggage



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