GEOJIT

RETAIL EQUITY RESEARCH

V-GUARD Industries Ltd

Electrical Equipments

BSE CODE:532953 **NSE CODE:** VGUARD
Bloomberg CODE: VGRD:IN **SENSEX:** 35,463

Accumulate

Rating as per Midcap 12 Months investment period

CMP Rs. 205 **TARGET** Rs. 225 **RETURN** 10%

08th June, 2018

EBITDA margins to improve...

V-Guard Industries Ltd (VGIL) is one of leading player in Electrical consumer durables space. Its major product segment includes Stabilizers, cables & wires, UPS, pumps and Electrical appliances.

- **Q4FY18 reported revenue grew by 8%, while PAT adjusted for one-off advertisement spends of Rs35cr, was up 40% YoY.**
- **Gross margins improved by 170bps YoY. EBITDA margins declined by 360bps YoY to 5.7%, due higher advertisement expenses.**
- **New product launches, brand building, expanding retail chains, growing non-south markets and exploring inorganic growth opportunities underlines our confidence in VGIL.**
- **We trim our EPS estimates by 6.1% & 2.1% to factor in lower than expected earnings in Q4. Despite downgrades earnings to grow by robust 41% CAGR over FY18-FY20E.**
- **We value VGIL at 36x P/E (38x) on FY20E considering the impact on earnings in Q4FY18. Considering recent sharp correction in stock prices, we upgrade to Accumulate from Hold with a target price of Rs225.**

Revenue growth stable...

VGIL's Q4FY18 reported revenue grew by 8% YoY, led by UPS, Fans, Switch gear & consumer durables and Cables & wires which reported a growth of 24%, 15%, 63%, & 1%YoY respectively. Revenue from stabilizers, water heaters and Pumps were muted by -4%, -2% & -5% YoY respectively. Non-South markets recorded robust revenue growth of 20.1% YoY while revenue growth from South markets was flat. During the quarter company launched new variant of Fans, LED lights and modular switches in Kerala. VGIL has introduced Air coolers in Delhi, Orissa and Hyderabad. As part of its brand rejuvenation exercise, VGIL rolled out a new brand identity in Q4 to reflect the company's transformation into a leading multi-product, pan-India brand in the Consumer Electricals space. With impact of GST stabilized, we expect growth to pick-up. However given lower than expected top line growth we lower our revenue estimates by 2.4% & 1.8% for FY19E & FY20E.

EBITDA margin to improve...

Gross margins improved by 170bps YoY to 29.3% largely due to pass through of higher commodity prices. But due to unveiling of the new brand and increased advertisement spending for brand building EBITDA margins declined by 360bps YoY to 5.7%. The advertisement spends (including promotional) were to the tune of Rs64cr, 9.7% of overall sales. Consequently PAT declined by 30% to Rs28cr. The one–off advertisement spends amounted to Rs35cr, after adjusting for this PAT has grown by 40% YoY. However, considering near term impact on margins due to higher spending for brand building we lower our EBITDA margins estimates by 40bps for FY19E. Consequently we lower EPS estimates by 6.1% & 2.1% for FY19 & FY20E. Despite this we expect PAT to grow by 41% CAGR over FY18-20E.

Valuations

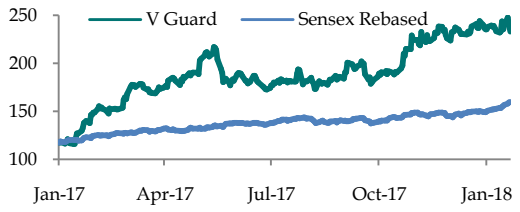
VGIL is trading at 1 Year FWD P/E of 39x which is significant premium to its historical average. With the impact of GST rates stabilised we expect growth to pick-up going forward. We trim our EPS estimates by 6.1% & 2.1% for FY19 & FY20E to factor in the Q4 impact on earnings, despite this the earnings outlook continues be robust at 41% CAGR over FY18-20E. We value VGIL at 36x (38x) P/E on FY20E considering the impact on earnings in Q4FY18. We upgrade to Accumulate from Hold with a target price of Rs225.

Company Data	
Market Cap (cr)	Rs. 8,531
Enterprise Value (cr)	Rs. 8,534
Outstanding Shares (cr)	42.5
Free Float	35.7%
Dividend Yield	0.3%
52 week high	Rs. 255
52 week low	Rs. 165
6m average volume (cr)	0.1
Beta	1.2
Face value	Rs. 1.0

Shareholding (%)	Q2 FY18	Q3 FY18	Q4 FY18
Promoters	65.1	64.5	64.3
FII's	11.2	11.8	11.7
MFs/Institutions	11.3	12.2	12.5
Public	10.8	10.0	10.1
Others	1.6	1.5	1.4
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-11.4%	-13.8%	8.1%
Absolute Sensex	6.5%	6.7%	13.4%
Relative Return*	-17.8%	-20.4%	-5.3%

*over or under performance to benchmark index



Standalone (Rs Cr)	FY18A	FY19E	FY20E
Sales	2,312	2,721	3,215
Growth (%)	*10.8*	*17.7*	*18.2*
EBITDA	187	288	354
Margin (%)	*8.1*	*54.3*	*22.6*
PAT Adjusted	133	219	266
Growth (%)	*(8.0)*	*64.3*	*21.9*
Adjusted EPS	3.1	5.1	6.3
Growth (%)	*(8.2)*	*64.3*	*21.9*
P/E	65.7	40.0	32.8
P/B	8.2	6.5	5.2
EV/EBITDA	46.8	30.3	24.7
ROE (%)	*19.2*	*25.8*	*25.0*
D/E	0.0	0.0	0.0

Anil R
Analyst

Quarterly Financials

Profit & Loss Account

(Rs Cr)	Q4FY18A	Q4FY17A	YoY Growth %	Q3FY18A	QoQ Growth %
Sales	**659**	**610**	*7.9*	**524**	*24.3*
EBITDA	**38**	**57**	*(33.3)*	**49**	*(23.3)*
EBITDA margins	**5.7**	**9.3**	*(360bps)*	**9.4**	*(360bps)*
Depreciation	5	4	*21.7*	5	*6.9*
EBIT	**33**	**53**	*(37.7)*	**45**	*(26.6)*
Interest	0.3	0.5	*(35.0)*	0.5	*(35.0)*
Other Income	3	3	*3.7*	3	*29.8*
Exceptional Items	-	-	-	-	-
PBT	**36**	**55**	*(35.4)*	**47**	*(23.4)*
Tax*	8	16	*(49.5)*	11	*(25.1)*
Reported PAT	**28**	**39**	*(30.0)*	**36**	*(23.0)*
Adjustment	-	-	-	-	-
Adjusted PAT	**28**	**39**	*(30.0)*	**36**	*(23.0)*
No. of shares (cr)	42.5	42.5	-	42.5	-
EPS (Rs)	**0.7**	**0.9**	*(30.0)*	**0.8**	*(23.0)*

Change in estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**
Revenue	2,788	3,272	2,721	3,215	*(2.4)*	*(1.8)*
EBITDA	307	360	288	354	*(5.9)*	*(1.8)*
Margins (%)	11.0	11.0	10.6	11.0	*(40bps)*	-
PAT	233	272	219	266	*(6.1)*	*(2.1)*
EPS	5.5	6.4	5.1	6.3	*(6.1)*	*(2.1)*

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Sales	**1,862**	**2,086**	**2,312**	**2,721**	**3,215**
% change	*6.7*	*12.0*	*10.8*	*17.7*	*18.2*
EBITDA	**178**	**209**	**187**	**288**	**354**
% change	*33.8*	*20.8*	*(10.4)*	*54.3*	*22.6*
Depreciation	15	16	19	22	23
EBIT	163	192	168	267	330
Interest	9	2	2	0	-
Other Income	7	13	11	25	25
PBT	**161**	**210**	**177**	**292**	**355**
% change	*58.7*	*26.6*	*(13.0)*	*64.4*	*21.9*
Tax	49	59	44	73	89
Tax Rate (%)	*30.6*	*29.0*	*24.9*	*25.0*	*25.0*
Reported PAT	**112**	**143**	**133**	**219**	**266**
Adjusted	-	2	-	-	-
Adjusted PAT	**112**	**145**	**133**	**219**	**266**
% change	*57.9*	*29.5*	*(8.0)*	*64.3*	*21.9*
No. of shares (mn)	42.5	42.5	42.5	42.5	42.5
Adjusted EPS (Rs)	**2.6**	**3.4**	**3.1**	**5.1**	**6.3**
% change	*57.9*	*29.8*	*(8.2)*	*64.3*	*21.9*
DPS (Rs)	0.8	0.6	0.6	0.6	0.6
CEPS (Rs)	4.2	3.8	3.6	5.6	6.8

Balance Sheet

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Cash	7	15	5	5	10
Accounts Receivable	279	319	444	522	617
Inventories	205	274	311	377	455
Other Cur. Assets	45	65	103	95	122
Investments	19	89	84	164	274
Gross Fixed Assets	229	250	302	317	332
Net Fixed Assets	155	164	196	190	181
CWIP	0	10	7	15	20
Intangible Assets	6	5	4	3	2
Def. Tax (Net)	(7)	(5)	(3)	3	10
Other Assets	-	-	-	-	-
Total Assets	**709**	**935**	**1,152**	**1,373**	**1,689**
Current Liabilities	179	251	362	387	455
Provisions	40	32	35	41	48
Debt Funds	19	15	3	-	-
Other Liabilities	-	-	-	-	-
Equity Capital	30	42	43	43	43
Reserves & Surplus	441	595	709	902	1,143
Shareholder's Fund	471	637	752	945	1,186
Total Liabilities	**709**	**935**	**1,152**	**1,373**	**1,689**
BVPS (Rs)	**16**	**21**	**25**	**32**	**40**

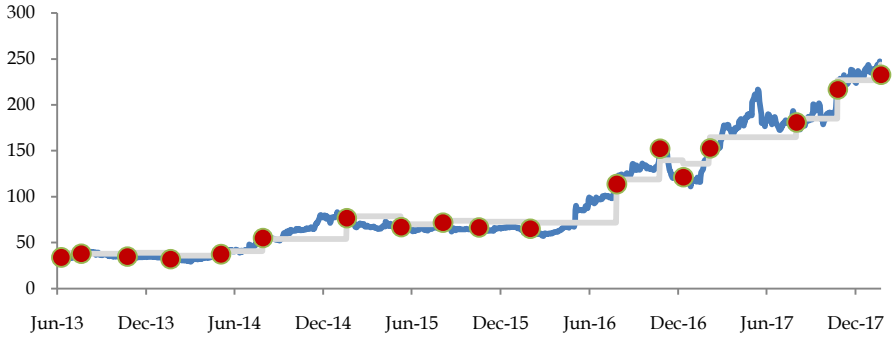
Cash flow

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Net inc. + Depn.	127	159	152	240	290
Non-cash adj.	16	2	(3)	(31)	(32)
Changes in W.C	(12)	(50)	(87)	(104)	(124)
C.F.O	**131**	**111**	**62**	**105**	**134**
Capital exp.	(14)	(42)	(48)	(21)	(19)
Change in inv.	(19)	(69)	(4)	(71)	(110)
Other invest.CF	2	6	4	25	25
C.F - investing	**(32)**	**(105)**	**(48)**	**(68)**	**(104)**
Issue of equity	3	9	-	-	-
Issue/repay debt	(57)	(5)	(12)	(3)	-
Dividends paid	(30)	(8)	(25)	(25)	(25)
Other finance.CF	(10)	(2)	(2)	-	-
C.F - Financing	**(94)**	**(6)**	**(39)**	**(29)**	**(25)**
Chg. in cash	5	-	(2)	0	5
Closing cash	7	7	5	5	10

Ratios

Y.E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	9.6	10.0	8.1	10.6	11.0
EBIT margin (%)	8.7	9.2	7.3	9.8	10.3
Net profit mgn.(%)	6.0	6.9	5.8	8.0	8.3
ROE (%)	26.3	26.1	19.2	25.8	25.0
ROCE (%)	17.6	18.0	14.3	18.8	18.3
W.C & Liquidity					
Receivables (days)	51.2	52.4	60.3	64.8	64.6
Inventory (days)	64.7	59.1	66.0	66.6	68.6
Payables (days)	56.1	53.1	69.2	72.5	69.4
Current ratio (x)	2.4	2.4	2.2	2.3	2.4
Quick ratio (x)	1.6	1.3	1.2	1.4	1.4
Turnover &Levg.					
Gross asset T.O (x)	8.3	8.7	8.4	8.8	9.9
Total asset T.O (x)	2.6	2.5	2.2	2.2	2.1
Int. covge. ratio (x)	18.2	91.6	101.1	-	-
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV/Sales (x)	4.9	4.4	4.0	3.4	2.8
EV/EBITDA (x)	51.5	43.8	49.0	31.7	25.9
P/E (x)	81.9	63.1	68.8	41.9	34.4
P/BV (x)	13.9	10.2	8.6	6.8	5.4

Recommendation Summary



Source: Bloomberg, Geojit Research

Dates	Rating	Target
11-June-13	Accumulate	39
22-July-13	Hold	38
25-Oct-13	Hold	39
22-Jan-14	Accumulate	36
6-May-14	Accumulate	41
31-Jul-14	Hold	54
20-Jan-15	Hold	79
12-May-15	Hold	70
6-August-15	Hold	74
19-Ooctober-15	Accumulate	73
2-Februray-16	Accumulate	72
29-July-16	Hold	119
26-October-16	Reduce	140
13-December-16	Hold	136
06-February -17	Accumulate	165
03-August-17	Hold	185
27-October-17	Hold	227
25-Janauary-18	Hold	244
08-June-18	Accumulate	225

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	**-**	**Upside is above 10%.**	**Buy**	**-**	**Upside is above 15%.**
Hold	**-**	**Upside is between 0%- 10%.**	**Accumulate**	**-**	**Upside is between 10% - 15%.**
Reduce	**-**	**Downside is more than 0%.**	**Hold**	**-**	**Upside is between 0% - 10%.**
Neutral	**-**	**Not Applicable**	**Reduce/Sell**	**-**	**Downside is more than 0%.**
			Neutral	**-**	**Not Applicable**

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.
The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.
For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.
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