

# Stock Update

H2 expected to be better than H1; PT revised to Rs. 264

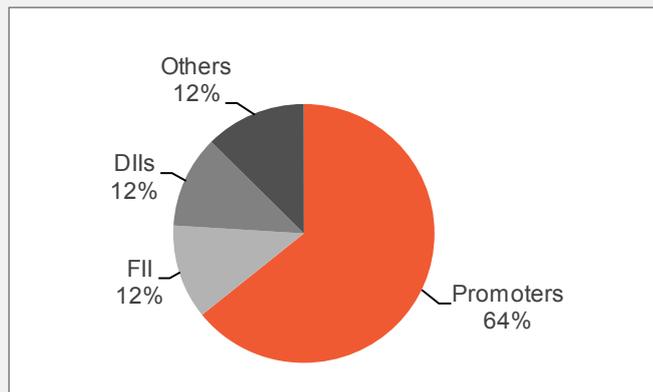
## V-Guard Industries

Reco: Buy | CMP: Rs217

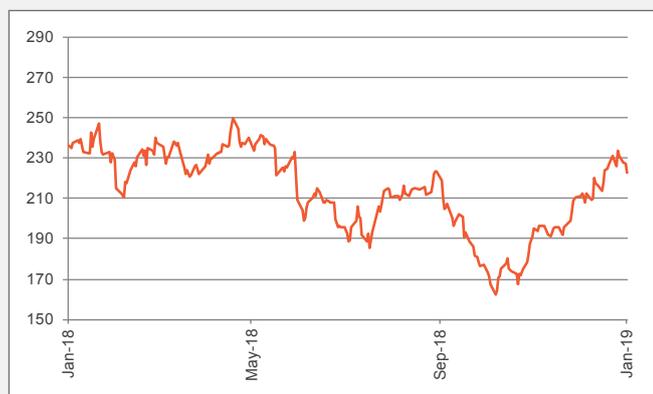
### Company details

Price target:	Rs264
Market cap:	Rs9,268 cr
52-week high/low:	Rs255/159
NSE volume: (No of shares)	9.3 lakh
BSE code:	532953
NSE code:	VGUARD
Sharekhan code:	VGUARD
Free float: (No of shares)	15.3 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	40.3	41.7	45.2	34.7
Relative to Sensex	38.5	37.8	50.6	40.4

### Key points

- Stock price moved up by 26% in the past two months:** The stock price of V-Guard (VGRD) has moved up by 26% since our last update (dated on October 26, 2018). The run up in the stock price can be attributed to improving demand environment (strong demand from independent houses in tier 3-4 cities and replacement demand) and factoring in the impact from Kerala floods combined with miss out on Onam sales. The recovery of lost sales in Kerala has gradually started and wires, cables and pumps initially will be key beneficiaries from replacement demand. Further, the company's continued focus on non-south market (35% revenue contribution) would accelerate growth in sales in some of its seasonal products such as water heaters and other products such as digital UPS, appliances, wires and switchgears. Going ahead, we expect the annual revenue contribution from the non-south region to be ~36-37% from existing 35% and gradually moving to 50% in couple of years with its existing as well as extended new product offerings (air coolers, kitchen appliances and switchgears).
- Extended distribution network coupled with thrust on innovation, branding and promotion to tap potential market share:** The company currently has ~30,000-35,000 retail touch points and envisages adding 3,000-5,000 retailers across the country every year over the next five years with higher additions in the non-south region. Currently, two-thirds of the company's distribution network has been established in the non-south region having significant potential for meaningfully adding to revenue growth and operating leverage to expand to existing investments. The company's sustained efforts on innovation, R&D and product development will continue to roll out differentiated products, keeping competition in mind. Cost optimisation (through methods such as lean manufacturing and efficient raw-material utilisation) is an endeavor being taken across its 10 plants to improve efficiency and margins.
- H2FY2019 to be stronger vs. H1FY2019:** The company expects to report 15% revenue growth in the second half of FY2019, driven by introduction of new products in non-south markets, acceleration in spend owing to general elections, favourable base of summer products

and price hike (2.0-2.5%), to ease margin pressure. Management's emphasis to introduce new products that have higher gross margins enables the company to grow its gross margins consistently. The company has guided for 10% operating margin for FY2019. For 3QFY2019, we expect revenue to grow by 18%, led by growth in the segment of water heaters and wires and cables. Gross margin for the quarter is expected to be lower because of higher commodity prices, marginally offset by price hikes undertaken. Going ahead, softening of copper prices would reduce some margin pressure in the near term. Thus, we expect operating profit margin to stand at 10.2% in Q3FY2019 as against 9.3% in Q3FY2018. Adjusted PAT is expected to grow at 28% in Q3FY2019.

- ◆ **Maintain Buy with a revised PT of Rs. 264:** VGRD has a strong brand portfolio dominating in the southern region. The company is aggressively trying to expand in the non-south region, where there is lot of pent-up demand for its products. VGRD's H1FY2019 performance has been dented with weak summer and Kerala floods, not structural challenges. H2FY2019 looks bright with softer commodity prices (copper down 8% y-o-y), recovery from Kerala, improving demand outlook (elections), shift in festive season and favourable base. We expect VGRD's revenue and PAT to generate CAGR of 18.4% and 26.9% over FY2018-FY2021E, respectively. In view of decent earnings visibility, we maintain our Buy rating on the stock with potential price target (PT) of Rs. 264 (rolling over PT to FY2021E earnings).

Valuation Particulars	Rs cr				
	FY17	FY18	FY19E	FY20E	FY21E
Net sales	2,086	2,312	2,659	3,181	3,835
Growth (%)	12.0	10.8	15.0	19.7	20.6
Operating margin (%)	10.0	9.6	9.7	10.8	11.8
Net profit	145	169	190	258	345
Adjusted EPS (Rs.)	3.4	4.0	4.5	6.1	8.1
Growth (%)	29.7	16.5	12.2	36.0	33.8
PER (x)	51.3	44.1	39.3	28.9	21.6
P/B (x)	11.7	9.9	8.2	6.6	5.3
EV/EBIDTA (x)	33.0	31.4	26.6	19.7	14.7
RoCE (%)	37.0	31.0	30.5	33.9	36.4
RoNW (%)	26.2	24.4	22.9	25.4	27.3
RoIC (%)	42.4	36.8	36.0	41.1	45.3
Div Yield (%)	0.5	0.5	0.4	0.6	0.8

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