

Stock Update

Soft quarter; Maintain Hold

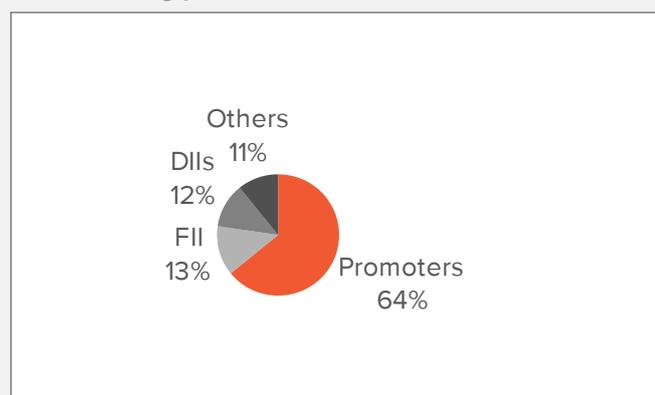
V-Guard Industries

Reco: Hold | CMP: Rs234

Company details

Price target:	Rs255
Market cap:	Rs9,993 cr
52-week high/low:	Rs237/159
NSE volume: (No of shares)	8.0 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	4.2	11.0	8.2	-0.8
Relative to Sensex	2.9	0.5	-1.3	-13.3

Key points

- Seasonal factors in non-South region affect net earnings:** For Q4FY2019, net sales of V-Guard Industries (V-Guard) rose by 12.3% y-o-y to Rs. 740 crore, marginally below our estimate. The revenue was driven majorly by the electrical segment (14.8% y-o-y, in which sub-category cables grew 24.8% y-o-y) and new product categories (up 61.5% y-o-y in which sub-categories switch gears and kitchen appliances grew by 89.3% and 41.8% y-o-y respectively). Stabilizers reported only 2.8% y-o-y growth on account of lower ac sales in Non-South normalized higher sales in South. UPS segment declined by 6.5% as the company treaded carefully to secure margins and its product mix. The pent up demand in Southern region led to 16.3% y-o-y growth in revenue from that region while non-South region was affected by delayed onset of summer. The operating margins declined 65BPS y-o-y to 10.6% on account of 1) lower growth in high margin stabilizer segment and 2) higher expenditure predicting strong revenue growth. Hence, operating profit grew at a slower pace of 5.8% y-o-y to Rs. 78 crore. The weak operational performance along with higher ETR (25.1% Vs 11.4% in Q4FY2018) led to adjusted net profit (adjusted for higher advertisement spend in Q4FY2018) decline of 6.8% y-o-y to Rs. 59 crore.
- Aiming to revive growth and improve upon margins:** The management is targeting to grow its overall revenue by 15% y-o-y in FY2020 assuming the revival of growth in stabilizer and pumps (each to grow by 10% y-o-y), UPS (up 15-18% y-o-y) and higher contribution of new products (currently 7% of revenue). The company will aim for 10% operating margin (including other income) considering higher share of stabilizer revenue and rationalization of ad spends & employee costs. The company would be incurring capex of Rs. 130-140 crores over the next two years spending mainly on expanding water-heater manufacturing, bringing fans manufacturing in-house and expanding wire manufacturing. The company's board also passed enabling resolution to raise Rs. 750 crores in case it pursues inorganic growth opportunities.

- ♦ **Valuation – We maintain Hold rating with a revised PT of Rs. 255:** V-Guard's growth revival hinges upon better performance of its Stabilizer segment, sustained growth momentum in cables and better pan-out of summer season next year. Although we have factored in almost 15% y-o-y CAGR growth in revenues along with

improvement in margins over FY2019-FY2021E, the stock is currently trading at 38x its FY2021E earnings which provides an unfavourable risk reward ratio. Hence, at this stage, we maintain our Hold rating on the stock with revised PT of Rs. 255.

Results (Standalone)

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenues	740	659	12.3	594	24.5
RM cost	521	466	11.8	416	25.2
Staff cost	53	42	24.9	49	6.9
Other Exp	88	77	14.7	84	4.7
Operating Expenses	662	585	13.1	549	20.4
Operating profits	78	74	5.8	45	73.8
Other Income	7	3	103.0	4	55.3
Interest	0	0	(28.0)	1	(58.3)
Depreciation	6	5	8.4	6	(0.6)
PBT	79	72	10.3	43	83.2
Tax	20	8	142.8	9	109.5
Adj PAT	59	64	(6.8)	34	75.8
Reported PAT	59	28	114.8	34	75.8
Adj EPS (Rs)	1.4	1.5	(6.8)	0.8	75.8
			bps		bps
GPM	29.6%	29.3%	31	30.0%	(43)
OPM *	10.6%	11.2%	(65)	7.6%	300
NPM	8.0%	9.7%	(164)	5.7%	234
Tax rate	25.1%	11.4%	1,372	22%	315

Source Sharekhan; *OPM for Q4FY18 is adjusted for one time advertising spend;

Valuations

Particulars	Rs cr			
	FY18*	FY19	FY20E	FY21E
Net sales	2,312	2,566	2,937	3,396
% Y-o-Y growth	10.8	11.0	14.4	15.7
Operating margin (%)	9.6	8.5	9.5	10.2
Net profit	169	166	212	266
Adjusted EPS (Rs)	4.0	3.9	5.0	6.2
% Y-o-Y growth	16.5	(2.4)	27.8	25.5
PER	58.9	60.4	47.2	37.6
P/B	13.3	11.1	9.4	7.8
EV/EBIDTA	42.1	41.3	32.6	26.0
RoCE (%)	31.0	26.0	27.8	29.3
RoNW (%)	24.4	20.0	21.5	22.6
RoIC(%)	36.8	31.6	33.7	34.4
Div Yield (%)	0.4	0.3	0.4	0.5

Source Sharekhan; *OPM for FY18 is adjusted for one time advertising spend

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.