

## RETAIL EQUITY RESEARCH

## V-GUARD Industries Ltd

## Electrical Equipment

BSE CODE:532953

NSE CODE: VGUARD

Bloomberg CODE: VGRD:IN

SENSEX: 36,583

**Hold**

Rating as per Midcap

12 Months investment period

CMP Rs. 195 TARGET Rs. 207 RETURN 6% ↑

5<sup>th</sup> February, 2019**Susceptible to margin pressure...Non-South shines**

V-Guard Industries Ltd (VGIL) is one of the leading players in electrical consumer durables space. Major product segment includes Stabilizers, Cables & Wires, UPS, Pumps and Electrical Appliances.

- Q3FY19 revenue grew by 12% but PAT declined by 6% YoY.
- EBITDA margin fell by 180bps YoY to 7.6% on account of volatility in commodity prices & INR depreciation.
- Management's focus on Non-South market, new product launches and expanding retail chains will drive growth.
- We expect margins to improve led by price hikes and pick-up in demand, given Q4 being historically best quarter due to peak summer.
- However, given near term impact on margin, we lower our EPS estimates by 19% & 15% for FY19& FY20E.
- We expect PAT to grow 29% CAGR over FY19E-21E.
- We roll forward to FY21E and value VGIL at 34x, but given premium valuation and near-term pressure on margins we downgrade to "Hold" from Accumulate with a target price of Rs207.

**Non-South market shines...**

VGIL's Q3FY19 revenue grew by 12% YoY, led by UPS, stabilizers, water heaters, fan & consumer durables which reported a growth of 17.6%, 18.1%, 18%, 23% & 61% YoY respectively. While reported revenue growth from Cables and Pumps was flat. Non-south market grew by 19% YoY, while revenue from south market grew by modest 10% YoY as reconstruction activity post flood in Kerala has not picked up as expected. Going ahead with price hikes and Q4 being historically best quarter due to peak summer, we expect growth to pick-up. However, we lower our top-line growth estimates by 2% & 5% for FY19E & FY20E to factor in the impact in Q3FY19. We factor revenue to grow by 17% CAGR over FY19E-21E.

**EBITDA margin to improve...**

Gross margin declined by 200bps YoY to 30.0% largely due to delay in pass through of higher commodity prices and INR depreciation. While EBITDA margin declined by 180bps YoY to 7.6%. Going ahead with pick-up in volume growth and pass through of commodity prices, we expect EBITDA margin to improve. Management has guided EBITDA margin for FY19E at 9%. We lower our EBITDA margin estimates by 190bps & 110bps to 8.2% & 9.4% respectively for FY19E & FY20E to factor in the impact in Q3FY19. Consequently, our EPS estimates for FY19E & FY20E stand reduced by 19% & 15%. We expect PAT to grow by 29% CAGR over FY19E-21E.

**Valuations**

Going forward, with revival in south market coupled with continued growth momentum in non-south market and price hikes, we expect EBITDA margin to improve. We roll forward to FY21E & value VGIL at 34x, however, given near term impact on margin we downgrade to "Hold" from Accumulate with a target price of Rs207.

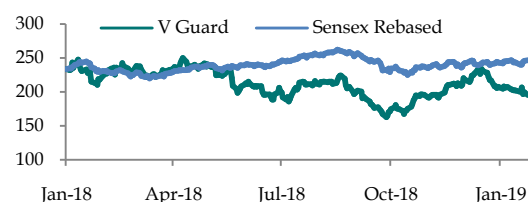
**Company Data**

Market Cap (cr)	Rs. 8,318
Enterprise Value (cr)	Rs. 8,321
Outstanding Shares (cr)	42.5
Free Float	35.7%
Dividend Yield	0.3%
52 week high	Rs. 255
52 week low	Rs. 159
6m average volume (cr)	0.1
Beta	1.2
Face value	Rs. 1.0

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	64.3	64.2	64.2
FII's	11.9	11.8	12.5
MFs/Institutions	12.2	11.5	11.8
Public	10.2	10.6	9.9
Others	1.4	1.9	1.6
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-0.3%	-7.7%	-8.2%
Absolute Sensex	4.5%	-3.4%	5.3%
Relative Return*	-4.9%	-4.3%	-13.5%

\*over or under performance to benchmark index



Standalone (Rs Cr)	FY19E	FY20E	FY21E
Sales	2,557	2,933	3,468
Growth (%)	10.6	14.7	18.2
EBITDA	210	276	347
Margin (%)	8.2	9.4	10.0
Adj. PAT	155	209	260
Growth (%)	16.6	34.7	24.4
Adjusted EPS	3.6	4.9	6.2
Growth (%)	16.3	34.7	24.4
P/E	53.7	39.9	32.1
P/B	6.7	5.5	4.5
EV/EBITDA	39.8	30.2	24.0
ROE (%)	19.0	21.5	22.0
D/E	0.0	0.0	0.0

Anil R  
Analyst

## Quarterly Financials

### Profit & Loss Account

(Rs Cr)	Q3FY19A	Q3FY18A	YoY Growth %	9MFY19	9MFY18	YoY Growth %
Sales	594	530	12.2	1,827	1,649	10.8
EBITDA	45	49	(9.0)	141	149	(5.2)
EBITDA margins	7.6	9.3	(180bps)	7.7	9.0	(130bps)
Depreciation	6	5	-	16	14	16.3
EBIT	39	45	(11.7)	125	135	(7.5)
Interest	1	0.5	-	1	1	-
Other Income	4	3	-	11	8	47.7
Exceptional Items	-	-	-	-	-	-
PBT	43	47	(7.5)	135	142	(4.3)
Tax*	9	11	(13.3)	29	36	(19.0)
Reported PAT	34	35	(4.9)	106	106	1.7
Adjustment	-	-	-	-	-	-
Adjusted PAT	34	35	(4.9)	106	106	0.7
No. of shares (cr)	42.5	42.5	-	42.5	42.5	-
EPS (Rs)	0.8	0.8	(4.9)	2.5	2.5	0.7

### Change in estimates

Year / Rscr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	2,604	3,076	2,557	2,933	(1.8)	(4.7)
EBITDA	258	323	210	276	(19.0)	(14.6)
Margins (%)	9.9	10.5	8.2	9.4	(170bps)	(110bps)
PAT	191	245	155	209	(19.0)	(15.0)
EPS	4.5	5.8	3.6	4.9	(19.0)	(15.0)

## Standalone Financials

### Profit & Loss Account

Y.E March (Rscr)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales</b>	<b>2,086</b>	<b>2,312</b>	<b>2,557</b>	<b>2,933</b>	<b>3,468</b>
% change	12.0	10.8	10.6	14.7	18.2
<b>EBITDA</b>	<b>209</b>	<b>187</b>	<b>210</b>	<b>276</b>	<b>347</b>
% change	20.8	(10.4)	12.2	31.5	25.8
Depreciation	16	19	22	27	31
EBIT	192	168	188	249	316
Interest	2	2	1	0	0
Other Income	13	11	17	25	25
<b>PBT</b>	<b>210</b>	<b>177</b>	<b>203</b>	<b>274</b>	<b>341</b>
% change	26.6	(13.0)	14.4	35.0	24.5
Tax	59	44	48	65	81
Tax Rate (%)	29.0	24.9	23.5	23.7	23.8
<b>Reported PAT</b>	<b>143</b>	<b>133</b>	<b>155</b>	<b>209</b>	<b>260</b>
Adjusted	2	-	-	-	-
<b>Adjusted PAT</b>	<b>145</b>	<b>133</b>	<b>155</b>	<b>209</b>	<b>260</b>
% change	29.5	(8.0)	16.6	34.7	24.4
No. of shares (mn)	42.5	42.5	42.7	42.7	42.7
<b>Adjusted EPS (Rs)</b>	<b>3.4</b>	<b>3.1</b>	<b>3.6</b>	<b>4.9</b>	<b>6.1</b>
% change	29.8	(8.2)	16.3	34.7	24.4
DPS (Rs)	0.6	0.6	0.6	0.6	0.6
CEPS (Rs)	3.8	3.6	4.2	5.5	6.8

### Cash flow

Y.E March (Rscr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	161	152	177	236	291
Non-cash adj.	11	20	(22)	(34)	(36)
Changes in W.C	(42)	(118)	(55)	(90)	(114)
<b>C.F.O</b>	<b>130</b>	<b>54</b>	<b>99</b>	<b>112</b>	<b>141</b>
Capital exp.	(42)	(41)	(41)	(59)	(19)
Change in inv.	(69)	8	(40)	(60)	(120)
Other invest.CF	5	7	17	25	25
<b>C.F - investing</b>	<b>(106)</b>	<b>(27)</b>	<b>(65)</b>	<b>(94)</b>	<b>(114)</b>
Issue of equity	9	3	0	-	-
Issue/repay debt	(15)	(3)	(2)	-	(1)
Dividends paid	(9)	(36)	(25)	(25)	(25)
Other finance.CF	(1)	(1)	(1)	(0)	(0)
<b>C.F - Financing</b>	<b>(16)</b>	<b>(37)</b>	<b>(29)</b>	<b>(25)</b>	<b>(26)</b>
Chg. in cash	8	(10)	6	(7)	1
Closing cash	15	5	10	3	4

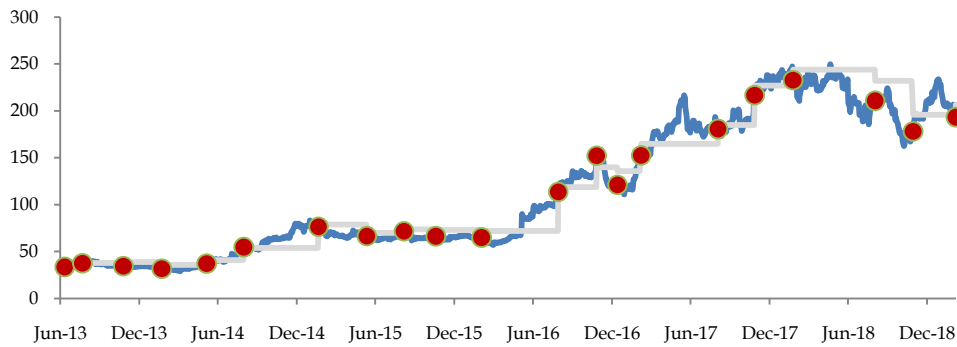
### Balance Sheet

Y.E March (Rscr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	15	5	10	3	4
Accounts Receivable	312	444	490	571	684
Inventories	274	311	343	398	460
Other Cur. Assets	65	103	113	130	154
Investments	89	84	124	184	304
Gross Fixed Assets	178	227	267	317	347
Net Fixed Assets	164	196	214	238	237
CWIP	10	7	10	20	10
Intangible Assets	5	4	3	2	1
Def. Tax (Net)	(4)	(3)	4	13	24
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>930</b>	<b>1,152</b>	<b>1,313</b>	<b>1,559</b>	<b>1,878</b>
Current Liabilities	262	362	392	448	525
Provisions	31	35	39	44	52
Debt Funds	2	3	1	1	1
Other Liabilities	-	-	-	-	-
Equity Capital	42	43	43	43	43
Reserves & Surplus	592	709	839	1,023	1,257
Shareholder's Fund	634	752	882	1,065	1,300
<b>Total Liabilities</b>	<b>930</b>	<b>1,152</b>	<b>1,313</b>	<b>1,559</b>	<b>1,878</b>
<b>BVPS (Rs)</b>	<b>21</b>	<b>25</b>	<b>29</b>	<b>36</b>	<b>44</b>

### Ratios

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	10.0	8.1	8.2	9.4	10.0
EBIT margin (%)	9.2	7.3	7.3	8.5	9.1
Net profit mgn.(%)	6.9	5.8	6.1	7.1	7.5
ROE (%)	26.0	19.2	19.0	21.5	22.0
ROCE (%)	25.8	19.3	19.1	21.5	22.0
<b>W.C &amp; Liquidity</b>					
Receivables (days)	52.0	59.7	66.7	66.0	66.0
Inventory (days)	59.5	66.1	66.7	66.1	65.3
Payables (days)	56.6	70.5	76.9	75.0	74.1
Current ratio (x)	2.3	2.2	2.2	2.3	2.3
Quick ratio (x)	1.2	1.2	1.3	1.3	1.3
<b>Turnover &amp;Levg.</b>					
Gross asset T.O (x)	12.5	11.4	10.3	10.0	10.4
Total asset T.O (x)	2.5	2.2	2.1	2.0	2.0
Int. covge. ratio (x)	91.6	101.1	150.4	-	-
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation ratios</b>					
EV/Sales (x)	4.0	3.6	3.3	2.8	2.4
EV/EBITDA (x)	39.8	44.5	39.8	30.2	24.0
P/E (x)	57.4	62.5	53.7	39.9	32.1
P/BV (x)	9.3	7.8	6.7	5.5	4.5

## Recommendation Summary



Source: Bloomberg, Geojit Research

Dates	Rating	Target
20-Jan-15	Hold	79
12-May-15	Hold	70
6-August-15	Hold	74
19-October-15	Accumulate	73
2-February-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-January-18	Hold	244
08-June-18	Accumulate	225
03-August-18	Accumulate	232
29-October-18	Accumulate	196
02-February-19	Hold	207

## 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

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