

Retail Equity Research (South India Focus)

V-Guard Industries Ltd

Electrical Equipment

 BSE CODE : 532953 NSE CODE: VGUARD
 BLOOMBERG CODE: VGRD:IN SENSEX : 51,423

Accumulate

12Months Investment Period Rating as per Small Cap

CMP Rs.269 TARGET Rs.297 RETURN 10% ↑
 (Closing: 28-05-21)

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Strong earning momentum...margin expands

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.

- Q4FY21 Revenue grew by 58% YoY, on account pent-up demand. PAT grew by 110% YoY, led by strong operating performance.
- EBITDA margin improved by 450bps YoY to 12.9% on account of cost rationalisation and lower advertisement spends.
- VGIL to trade at premium valuation on account of increasing penetration in Non-south market, new product launches and expanding retail chains, strong growth in its key south market and strong balance sheet position.
- We might see slight hiccups in earnings due to Covid second wave. However, economic activities to normalise in Q2FY22 leading to pick-up in construction activities and revival in discretionary spending.
- We value VGIL at P/E of 44x on FY23E, with a target price of Rs297 and maintain "Accumulate" rating.

Revenue growth picks-up..

VGIL's Q4FY21 revenue grew by 58% YoY, on account strong demand rebound across product categories and re-stocking of distribution channels, as lockdown eased out. Revenue growth was broad based across products, electronics segment, electrical & Consumer segments grew by 61%, 58% & 55% YoY, respectively. Resumption of construction activities also supported the recovery in demand. Revenue growth from south & non-south market grew by 50% & 71% YoY, respectively. Company gained market share in mid-premium Fans while lost some market share in water heaters due to closure of plants. Going ahead, second Covid wave is expected to hurt Q1FY22 revenues. However, we expect revenue growth to normalize in Q2FY22. We factor revenue to grow by 14% CAGR over FY21-23E.

EBITDA margin to improve...

Gross margin declined by 190bps YoY to 31.4%, was impacted by higher cost & delay in pass through of higher commodity prices. EBITDA margins improved by 450bps YoY to 12.9% due to scale benefits and cost rationalization. EBITDA grew by 143% YoY. Despite higher tax, PAT grew by 110% YoY to Rs.68cr, albeit at a lower base. Going ahead, we expect price hikes (higher commodity prices), along with cost rationalization and strong revenue growth momentum, will expect EBITDA margin to stable. Consequently, we expect EPS to grow by 21% CAGR over FY21-23E.

Valuations

VGIL long term outlook is improving given its strong product portfolio, improving retail presence, expanding its non-south market, strong cash flow and healthy balance sheet. Given strong earnings outlook & stable EBITDA margin profile, we maintain our positive outlook on the stock. We value VGIL at P/E of 44x on FY23E and maintain "Accumulate " rating with a target price of Rs297.

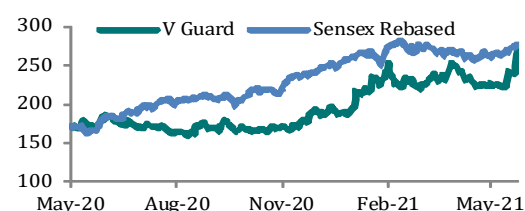
Company Data

Market Cap (cr)	Rs.11,502
Enterprise Value (cr)	Rs.11,566
Outstanding Shares (cr)	43.0
Free Float	42.8%
Dividend Yield	0.33%
52 week high	Rs.285
52 week low	Rs.160
6m average volume (cr)	0.1
Beta	1.2
Face value	Rs. 1.0

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	62.6	62.6	57.2
FII's	12.5	13.0	14.9
MFs/Institutions	13.3	13.2	13.8
Public	10.5	10.1	12.8
Others	1.2	1.1	1.2
Total	100.0	100.0	100.0
Promoter's Pledge	0.0	0.0	0.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	19.8%	45.7%	55.2%
Absolute Sensex	4.7%	16.5%	59.7%
Relative Return*	15.1%	29.2%	-4.5%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	2,669	3,059	3,503
Growth (%)	8.7	13.3	14.5
EBITDA	306	327	392
EBITDA Margin(%)	11.4	10.7	11.2
Adjusted PAT	199	241	290
Growth (%)	7.5	21.3	20.3
Adjusted EPS	4.6	5.6	6.8
Growth (%)	7.5	21.3	20.3
P/E	58.0	47.8	39.7
P/B	6.7	6.0	5.2
EV/EBITDA	37.7	35.3	29.5
ROE (%)	18.1	18.8	19.8
D/E	0.0	0.0	0.0

Quarterly Financials

Profit & Loss

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %
Sales	827	627	<i>32.0</i>	827	<i>(5.0)</i>
EBITDA	114	59	<i>91.1</i>	114	<i>(5.5)</i>
EBITDA margins	13.7	9.5	<i>+420bps</i>	13.7	<i>(10bps)</i>
Depreciation	9	7	<i>28.6</i>	9	<i>22.2</i>
EBIT	104	52	<i>100.0</i>	104	<i>(8.7)</i>
Interest	1	1	-	1	<i>13.2</i>
Other Income	5	5	-	5	<i>(11.0)</i>
Exceptional Items	-	-	-	-	-
PBT	108	57	<i>92.0</i>	108	<i>(9.2)</i>
Tax	31	14	<i>130.0</i>	31	<i>6.6</i>
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	77	43	<i>80.0</i>	77	<i>(14.4)</i>
Adjustments	-	-	-	-	-
Adjusted PAT	77	43	<i>80.0</i>	77	<i>(14.4)</i>
No. of Shares	42.7	42.7	-	42.7	-
EPS (Rs)	1.8	1.0	<i>80.0</i>	1.8	<i>(14.4)</i>

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	3,069	3,482	3,059	3,503	<i>(0.3)</i>	<i>0.6</i>
EBITDA	328	383	327	392	<i>(0.3)</i>	<i>2.3</i>
Margins (%)	10.7	11.0	10.7	11.2	-	<i>+20bs</i>
Adj. PAT	244	286	241	290	<i>(1.2)</i>	<i>1.4</i>
EPS	5.7	6.7	5.6	6.8	<i>(1.7)</i>	<i>1.5</i>

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Sales	2,566	2,482	2,699	3,059	3,503
% change	11.0	(3.3)	8.7	13.3	14.5
EBITDA	219	253	306	327	392
% change	17.4	15.4	21.0	6.8	19.9
Depreciation	22	28	37	39	45
EBIT	198	225	269	288	348
Interest	1	4	6	5	5
Other Income	18	24	21	31	35
PBT	215	245	285	313	377
% change	21.0	14.4	16.0	10.1	20.3
Tax	49	60	86	72	87
Tax Rate (%)	22.9	24.6	30.1	23.0	23.0
Reported PAT	165	185	199	241	290
Adj.*	-	-	-	-	-
Adj. PAT	165	185	199	241	290
% change	24.4	11.9	7.5	21.3	20.3
No. of shares (cr)	42.7	42.8	43.0	43.0	43.0
Adj EPS (Rs)	3.9	4.3	4.6	5.6	6.8
% change	24.0	11.5	7.5	21.3	20.3
DPS (Rs)	0.8	2.0	2.0	2.0	2.0
CEPS (Rs)	4.4	5.0	5.5	6.5	7.8

BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	84	23	281	239	289
Accounts Receivable	454	322	385	461	528
Inventories	371	476	629	628	664
Other Cur. Assets	133	237	147	194	223
Investments	92	45	42	72	92
Gross Fixed Assets	254	332	453	518	588
Net Fixed Assets	210	263	347	372	397
CWIP	8	67	20	30	30
Intangible Assets	3	5	7	6	5
Def. Tax (Net)	(2)	(2)	3	(1)	(1)
Other Assets	-	-	-	-	-
Total Assets	1,354	1,440	1,860	2,003	2,226
Current Liabilities	398	353	534	514	521
Provisions	42	46	54	63	77
Debt Funds	14	47	65	65	65
Other Liabilities	-	-	-	-	-
Equity Capital	43	43	43	43	43
Reserves & Surplus	857	951	1,165	1,319	1,521
Shareholder's Fund	900	994	1,208	1,362	1,564
Total Liabilities	1,354	1,440	1,860	2,003	2,226
BVPS	30	33	40	45	52

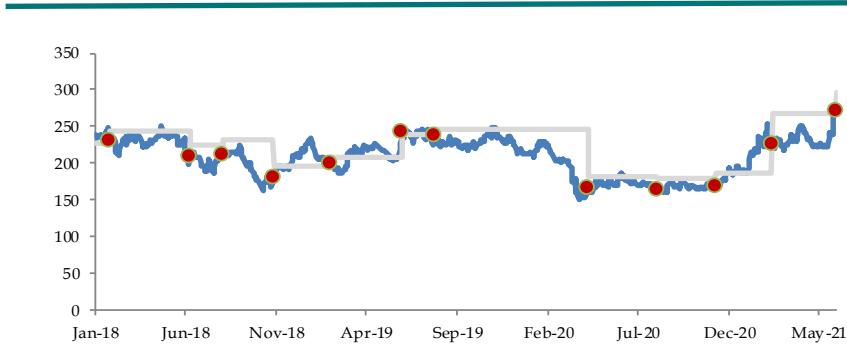
CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	187	213	236	281	335
Non-cash adj.	(10)	(20)	13	(25)	(29)
Changes in W.C	(38)	(50)	(38)	(133)	(110)
C.F. Operation	153	139	222	122	196
Capital exp.	(51)	(84)	(64)	(74)	(69)
Change in inv.	(8)	(41)	88	(30)	(20)
Other invest.CF	10	14	18	31	35
C.F - Investment	(50)	(110)	41	(73)	(54)
Issue of equity	5	2	5	-	-
Issue/repay debt	10	(0)	-	-	-
Dividends paid	(36)	(88)	(0)	(88)	(88)
Other finance.CF	(0)	(0)	(5)	(5)	(5)
C.F - Finance	(24)	(90)	(6)	(93)	(93)
Chg. in cash	80	(61)	257	(41)	49
Closing cash	84	23	281	239	289

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	8.5	10.2	11.4	10.7	11.2
EBIT margin (%)	7.7	9.1	10.0	9.4	9.9
Net profit mgn.(%)	6.4	7.5	7.4	7.9	8.3
ROE (%)	20.0	19.6	18.1	18.8	19.8
ROCE (%)	20.0	19.2	17.5	18.2	19.3
W.C & Liquidity					
Receivables (days)	63.9	57.1	47.8	50.5	51.5
Inventory (days)	69.1	93.3	109.1	110.1	99.2
Payables (days)	77.1	82.7	87.6	91.8	79.5
Current ratio (x)	2.4	2.7	2.5	2.6	2.9
Quick ratio (x)	1.4	1.0	1.2	1.4	1.6
Turnover & Leverage					
Gross asset T.O (x)	10.7	8.5	6.9	6.3	6.3
Total asset T.O (x)	2.0	1.8	1.6	1.6	1.7
Int. covge. ratio (x)	155.7	60.3	48.1	52.5	63.4
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	4.5	4.7	4.3	3.8	3.3
EV/EBITDA (x)	52.5	45.6	37.7	35.3	29.5
P/E (x)	69.5	62.3	58.0	47.8	39.7
P/BV (x)	90	8.2	6.7	6.0	5.2

Recommendation summary (Last 3 years)



Dates	Rating	Target
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
31-May-19	Hold	240
26-July-19	Hold	247
09-April-20	Accumulate	182
03-August-20	Accumulate	179
09-November-20	Accumulate	186
15-February-21	Accumulate	267
31-May-21	Accumulate	297

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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