

RETAIL EQUITY RESEARCH

V GUARD INDUSTRIES LTD

Electrical Equipments

BSE CODE: 532953

NSE CODE: V GUARD

Bloomberg CODE: VGRD:IN

SENSEX 20,159

HOLDCMP Rs 532 TARGET Rs 546 RETURN 3% 22nd July 2013**Signs toward normal margins**

VGuard Industries (VGIL) Q1FY14 results are marginally above expectations, with sales growth of 24% and improvement in EBITDA margins by 230bps QoQ to 7.6%. The improvement in margin is a pleasant surprise against a very weak margin of 5.3% (660bps down YoY) in Q4FY13. We maintain our sales growth of 26% and EBITDA margin expectation of 8.5% for FY14E. The management has guided to attain normal margins of 9%-10% over the next few quarters. To meet the management's guidance, VGIL need to improve its margin to 10% in the next three quarters. Given the recent run-up in the stock price and risk of lower margins as demand scenario continues to be weak, we revise out recommendation to HOLD.

Robust sales growth

Sales grew by 24% QoQ, lead by Solar water heaters (174%), Digital Ups (68%), Fans (40%), Housing wires (33%) and newly launched Induction cook tops and Switchgears (74%). The new launches will be extended to other South Indian market and mixer grinder will be launched in Kerala during Aug-Sept. The Non-South market grew by 41% contributing to 31% of the revenue v/s 28% in Q1FY13. We maintain 26% and 21% sales growth for FY14E and FY15E respectively.

Margin improves QoQ

Q1FY14 EBITDA margins improved by 230bps to 7.6%. The gross margin dropped by 340bps YoY due to weak demand sentiments, increase in raw material costs and higher discounts. The management has given a guidance of 9%-9.5% margins for FY14E. To achieve this VGIL has to improve EBITDA margins at an average of 10% in next 3 quarters. Advertisement spend is likely to be lower in the coming quarters against Rs215mn in Q1FY14, this will help attain higher margins. But the early heavy monsoon & weak consumer demand could impact sales in the coming quarters. Hence we maintain our sales growth of 26% and EBITDA margin of 8.5% for FY14E.

Working capital improves

VGIL had a strong cash flow from operations in Q1FY14 of Rs570mn which were used to pay off debt of Rs510mn. There was significant improvement in working capital cycle which reduced to 59days from 74days YoY. Due to better WC management, debtors' days reduced to 39days from 46days YoY and inventory days reduced to 65days from 78days QoQ. If the working capital situation improves further, we will have to reduce our interest cost assumption thus increasing earnings.

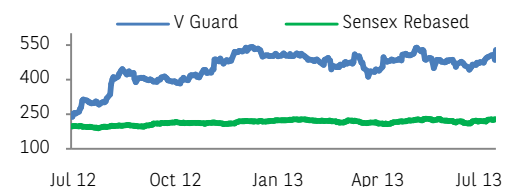
Valuation & Recommendation

We maintain VGIL target price at Rs546, which is at 15x P/E FY14E. Q1FY14 has provided a positive fillip to margins but VGIL is still below its potential or normal margins. We believe it will take 2-3quarter to reach normalized margins due to early and heavy rainy season. The short term demand scenario remains sluggish and improvement in power supply in South India could impact Q2&Q3FY14 sales. Hence we see risk to earnings expectation due to lower than guided margins of 9% to 9.5%. We maintain our margin expectation of 8.5% for FY14E and revise our recommendation to HOLD.

Anil R
AnalystVinod V. Nair
Head of Research**Company Data**

Market Cap (mn)	Rs 15,789
Enterprise Value (mn)	Rs 17,483
Outstanding Shares (mn)	29.8
Free Float	35%
Dividend Yield	0.60%
52 week high	Rs 558
52 week low	Rs 216
6m average volume (BSE+NSE)	76,276
Beta	0.77
Face value	Rs 10

Shareholding %	Q3 FY13	Q4 FY13	Q1 FY14
Promoters	65.3	65.3	65.5
FII's	12.1	12.7	14.5
MFs/Insti	3.6	3.7	3.5
Public	17.8	16.9	15.1
Others	1.3	1.4	1.4
Total	100.0	100.0	100.0
Price Performance	3mth	6mth	1 Year
Absolute Return	-0.6%	-6.5%	59.2%
Absolute Sensex	-2.7%	-4.4%	11.6%
Relative Return*	2.2%	-2.2%	42.7%

***over or under performance to benchmark index**

Y.E Mar (Rs mn)	FY13A	FY14E	FY15E
Sales	13,602	17,092	20,691
Growth (%)	41	26	21
EBITDA	1,099	1,471	1,841
Growth (%)	17.5	33.8	25.2
PAT Adj	629	844	1,086
Growth (%)	24	35	28
EPS	21	28	36
Growth (%)	24	35	28
P/E	22	18.7	14.5
P/B	6.2	4.8	14.5
EV/EBITDA	15.8	11.9	9.5
RoE (%)	27	28	28
D/E	0.6	0.5	0.4

For Queries:

E-mail: geojitbnppresearch@geojit.com

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Savings & Investments

Standalone Financials

Profit & Loss Account

Y.E Mar (Rs mn)	FY11A	FY12A	FY13A	FY14E	FY15E
Sales	7,266	9,646	13,602	17,092	20,691
% change	60	33	41	25	21
EBITDA	730	935	1,099	1,471	1,842
% change	45	28	18	34	25
Depreciation	79	97	114	135	154
EBIT	651	838	985	1,335	1,687
Interest	113	170	200	237	244
Other Income	17	24	36	35	35
PBT	591	692	822	1,133	1,478
% change	50	17	19	38	30
Tax	165	184	193	289	392
Tax Rate (%)	27	29	26	27	28
Reported PAT	426	508	629	844	1,086
Adj*	-	-	-	-	-
Adj PAT	426	508	629	844	1,086
% change	67	19	24	34	29
No. of shares (mn)	29.8	29.8	29.8	29.8	29.8
EPS (Rs)	14	17	21	28	36
% change	67	19	24	34	29
DPS (Rs)	3.5	3.5	3.5	3.5	3.5
CEPS (Rs)	17	20	25	33	42

Balance Sheet

Y.E Mar (Rs mn)	FY11A	FY12A	FY13A	FY14E	FY15E
Cash & Bank	71	34	151	124	176
A/C receivable	1,231	1,478	1,988	2,529	3,684
Inventories	1,424	1,574	2,486	3,026	3,684
Other Cur. Assets	172	279	454	597	751
Investments					
Gross fixed assets	1,348	1,481	1,726	2,026	2,326
Net fixed assets	1,086	1,159	1,313	1,478	1,624
CWIP	14	111	88	100	100
Intangible assets	52	72	69	58	48
Def. tax net	(61)	(43)	(79)	(62)	(40)
Other assets					
Total assets	3989	4664	6,470	7,708	9,253
Cur. liabilities	649	1,166	2,036	2,380	2,783
Provisions	162	245	246	281	340
Debt funds	1,458	1,147	1,574	1,694	1,794
Other liabilities	0.0	0.0	0.0	0.0	0.0
Equity capital	298.5	298.5	298.5	298.5	298.5
Reserves	1,421	1,808	2,315	3,055	4,037
Total Equity	1,720	2,106	2,613	3,353	4,334
Total liabilities	3,989	4,664	6,470	7,708	9,253
BVPS (Rs)	58	71	88	112	145

Cash flow

Y.E Mar (Rs mn)	FY11A	FY12A	FY13A	FY14E	FY15E
Net inc. + Depn.	506	605	743	980	1,241
Non-cash adj.	0	0	0	0	0
Changes in W.C	(949)	30	(772)	(962)	(882)
C.F.O	(344)	837	105	202	546
Capital exp.	(86)	(293)	(256)	(302)	(290)
Change in inv.	34	(15)	(17)	0	0
Other invest.CF	7	8	(20)	153	35
C.F - Investing	(46)	(299)	(254)	(149)	(255)
Issue of equity	0	0	0	0	0
Issue/repay debt	186	54	158	120	100
Dividends paid	(89)	(104)	(104)	(105)	(105)
Other finance.CF	278	(540)	195	(237)	(244)
C.F - Financing	374	(590)	249	(222)	(249)
Chg. in cash	(15)	(52)	100	(168)	42
Closing cash	71	34	151	(18)	25
No. of shares(mn)	29.8	29.8	29.8	29.8	29.8

Ratios

Y.E Mar (Rs mn)	FY11A	FY12A	FY13A	FY14E	FY15E
Return ratios					
EBITDA margin (%)	9.9	9.6	7.9	8.5	8.8
EBIT margin (%)	8.8	8.6	7.1	7.7	8.0
Net profit mgn.(%)	5.8	5.0	4.7	4.9	5.2
ROE (%)	27.2	26.6	26.7	28.3	28.3
ROCE (%)	14.6	14.9	18.0	17.1	17.1
W.C & Liquidity					
Receivables (days)	49.9	49.8	46.5	48.2	49.3
Inventory (days)	86.6	78.0	73.2	81.1	82
Payables (days)	48.1	47.2	57.7	64.9	63.1
Current ratio (x)	3.6	2.4	2.2	2.3	2.4
Quick ratio (x)	1.9	1.3	1.0	1.1	1.1
T/O & Leverage.					
Gross asset T.O (x)	5.5	7.0	8.4	9.1	9.5
Total asset T.O (x)	2.1	2.3	2.4	2.4	2.4
Int. coverage. (x)	5.7	4.9	4.9	5.6	6.9
Adj. debt/equity (x)	0.9	0.6	0.6	0.5	0.4
Valuation ratios					
EV/Sales (x)	2.4	1.8	1.3	1.0	0.8
EV/EBITDA (x)	23.6	18.1	15.8	11.9	9.5
P/E (x)	37.0	31.1	25.1	18.7	14.5
P/BV (x)	9.5	7.8	6.2	4.8	3.7



Corporate Office

Geojit BNP Paribas, 34/659-P, Civil Lane Road, Padivattom, Kochi – 682024

Toll Free Number: 1800-425-5501 / 1800-103-5501

Paid Number: 91 – 0484 – 3911777

Email id: customercare@geojit.com

Recommendation Criteria:

The recommendations are based on a 12 month horizon, unless otherwise specified. The recommendations 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 between the analyst recommendation and the actual absolute returns based on the current market price.

BUY	-	Absolute return of more than 18%.
Accumulate	-	Absolute returns between 10% - 18%.
Hold	-	Absolute returns between 0% - 10%.
Sell	-	Absolute returns of less than 0%.

* Accumulate is a better rating than SELL and HOLD, but lower than BUY recommendation. Clients are advised not to sell their holding in the stock and buy the stock whenever the stock provides a suitable price correction. The Analyst has a positive outlook about the company's business model; hence the stock is recommended to be brought over a period in a SIP (Systematic Investment Plan) fashion. Analyst has not given a BUY rating for reasons of premium valuations/clarity/events etc and may revisit rating at appropriate time. Please note that the stock always carries the risk of being downgraded to a HOLD or SELL recommendation on outcome of adverse events.

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