

RETAIL EQUITY RESEARCH

V-GUARD Industries Ltd

Electrical Equipments

BSE CODE:532953

NSE CODE: VGUARD

Bloomberg CODE: VGRD:IN

SENSEX: 32,239

Hold

Rating as per Midcap

12 Months investment period

CMP Rs. 181 TARGET Rs. 185 RETURN 2% ↑

4th August, 2017**GST woes temporary... valuation hefty**

V-Guard Industries Ltd (VGIL) is one of leading player in Electrical consumer durables space. Its major product segment includes Stabilizers, cables & wires, UPS, pumps and Electrical appliances.

- The extent of the impact from de-stocking lead by GST was completely unanticipated. Q1FY18 Revenue & PAT has declined by 2% & 46% YoY respectively.
- Similarly EBITDA margins declined by 570bps YoY to 5.8%, additionally impacted by higher employee cost and one-off expenses.
- Current headwinds like dealer discounts might continue for one more quarter, but post which the historical Revenue & EBITDA growth will come back.
- We believe that the near term impact on the earnings has been largely factored in stock price.
- Despite earnings downgrade VGIL's earnings outlook continues to be healthy, which is expected to grow at 23% CAGR over FY17-FY19E.
- We value VGIL at 34x P/E on FY19E with a target price of Rs185, however given limited upside in the stock prices we downgrade to Hold from Accumulate.

Revenue growth dips...

VGIL's Q1FY18 revenue de-grew by 2.3% YoY, due to destocking in trade channels led by GST implementation. UPS, Cables and Pumps reported a positive growth, grew by 16%, 3% and 5% YoY respectively. Fans, water heaters, stabilizers and appliance reported de-growth of 6%, 11%, 2% and 5% YoY due to de-stocking and seasonality impacts. The non-south market grew by 8% YoY which contributed 40% towards overall sales. While south market witnessed 3% YoY decline in revenue growth due to higher destocking. We believe that the current demand headwind due to GST transition is temporary and growth is expected to pick-up in coming quarters. We factor revenue to grow at 13% CAGR over FY17- FY19E.

EBITDA margin hit...temporary

Gross margins declined by 110bps YoY to 27.5% largely due to delay in pass through-off higher commodity prices given demand disruptions on account of GST destocking. While the EBITDA margins declined by 570bps YoY to 5.8% largely due one off expenses including compensation to trade channels on transition to GST and discount on wires & cables amounting to Rs1cr, ESOP expenses Rs3cr and additional cost incurred for stabilisation of Sikkim factory Rs3cr. PAT declined by 46% YoY due to impact of lower operating margins. We lower our EBITDA margins estimates by 80bps to 10.2% for FY18E. We revise downward EPS estimates by 11% & 1% for FY18E & FY19E to factor in Q1impact in our earnings estimates.

Valuations

VGIL is trading at 1 Year FWD P/E of 42x which is significant premium to its historical average. VGIL Q1FY18 profitability was impacted by GST and one-off expenses. Further, the risk of near term pressure on EBITDA persist which is a risk. However organised players like VGIL will benefit by gaining market share as business shifts to organised from un-organised. In spite of earning downgrade VGIL future earnings outlook continues to be healthy. We value VGIL at 34x P/E on FY19E with a target price of Rs185, while given limited upside in stock prices we downgrade to Hold from Accumulate.

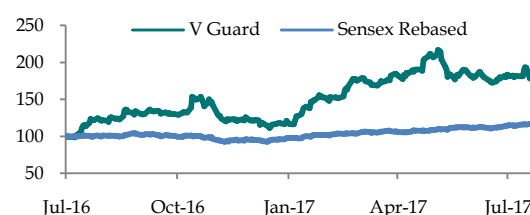
Company Data

Market Cap (cr)	Rs. 7,695
Enterprise Value (cr)	Rs. 7,710
Outstanding Shares (cr)	42.5
Free Float	35.0%
Dividend Yield	0.4%
52 week high	Rs. 221
52 week low	Rs. 109
6m average volume (cr)	0.1
Beta	0.8
Face value	Rs. 1.0

Shareholding (%)	Q3FY17	Q4FY17	Q1FY18
Promoters	65.4	65.2	65.2
FII's	13.0	12.5	11.8
MFs/Insti	10.6	10.0	10.0
Public	9.5	10.7	11.3
Others	1.5	1.6	1.7
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-10.6%	21.9%	47.0%
Absolute Sensex	7.8%	15.0%	16.1%
Relative Return*	-18.4%	6.9%	30.9%

*over or under performance to benchmark index



Standalone (Rs cr)	FY17A	FY18E	FY19E
Sales	2,151	2,335	2,743
Growth (%)	15.5	8.5	17.5
EBITDA	215	238	302
Margin (%)	10.0	10.2	11.0
PAT Adj	152	174	231
Growth (%)	35.9	14.8	32.6
Adj.EPS	3.6	4.1	5.4
Growth (%)	35.9	14.8	32.6
P/E	50.8	44.2	33.3
P/B	8.6	7.0	5.5
EV/EBITDA	35.9	32.4	25.6
ROE (%)	27.4	24.5	26.0
D/E	0.0	0.0	0.0

Anil R
Analyst

Quarterly Financials

Profit & Loss Account

(Rs Cr)	Q1FY18A	Q1FY17A	YoY Growth %	Q4FY17A	QoQ Growth %
Sales	560	573	(2.3)	623	(10.2)
EBITDA	33	64	(48.8)	59	(45.0)
EBITDA margins	5.8	11.1	(530bps)	9.5	(370bps)
Depreciation	5	4	-	4	-
EBIT	28	60	(53.0)	55	(49.0)
Interest	0	1	-	0.5	-
Other Income	3	2	-	3	-
Exceptional Items	-	-	-	-	-
PBT	31	60	(50.6)	58	(46.7)
Tax*	8	20	-	16	-
Reported PAT	23	43	(45.7)	42	(44.5)
Adjustment	-	-	-	-	-
Adj PAT	23	43	(45.7)	42	(44.5)
No. of shares (cr)	42.5	42.5	-	42.5	-
EPS (Rs)	0.54	1.01	(45.7)	0.99	(44.5)

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	2,404	2,788	2,334	2,742	(3.0)	(2.0)
EBITDA	264	307	238	302	(10.0)	(2.0)
Margins (%)	11.0	11.0	10.2	11.0	(80bps)	-
PAT	194	233	174	231	(10.4)	(1.0)
EPS	4.6	5.5	4.1	5.4	(10.8)	(1.1)

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Sales	1,746	1,862	2,151	2,335	2,743
% change	15.0	6.7	15.5	8.6	17.5
EBITDA	133	178	215	238	302
% change	8.5	33.8	20.8	10.7	26.7
Depreciation	15	15	16	17	18
EBIT	118	163	199	221	284
Interest	21	9	2	1	0
Other Income	4	7	13	16	25
PBT	101	161	210	235	308
% change	7.6	58.7	30.6	12.0	30.8
Tax	31	49	58	61	77
Tax Rate (%)	30.3	30.6	27.8	26.0	25.5
Reported PAT	71	112	152	174	231
Adj*	-	-	-	-	-
Adj PAT	71	112	152	174	231
% change	0.8	57.9	35.9	14.8	32.6
No. of shares (mn)	30.0	30.1	42.5	42.5	42.5
Adj EPS (Rs)	2.4	3.7	3.6	4.1	5.4
% change	0.8	57.3	35.9	14.8	32.6
DPS (Rs)	0.5	0.8	0.6	0.6	0.6
CEPS (Rs)	2.8	2.9	4.0	4.5	5.9

Balance Sheet

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Cash	2	7	15	37	36
Accounts Receivable	244	279	319	358	421
Inventories	261	205	274	308	361
Other Cur. Assets	55	45	65	72	85
Investments	-	19	89	149	259
Gross Fixed Assets	219	229	250	265	280
Net Fixed Assets	156	155	164	161	158
CWIP	1	0	10	15	20
Intangible Assets	7	6	5	4	3
Def. Tax (Net)	(9)	(7)	(5)	(1)	5
Other Assets	-	-	-	-	-
Total Assets	716	709	935	1,104	1,348
Current Liabilities	224	179	251	277	310
Provisions	44	40	32	35	41
Debt Funds	71	19	15	5	5
Other Liabilities	-	-	-	-	-
Equity Capital	30	30	42	42	42
Reserves & Surplus	348	441	595	744	949
Shareholder's Fund	378	471	637	786	992
Total Liabilities	716	709	935	1,104	1,348
BVPS (Rs)	13	16	21	26	33

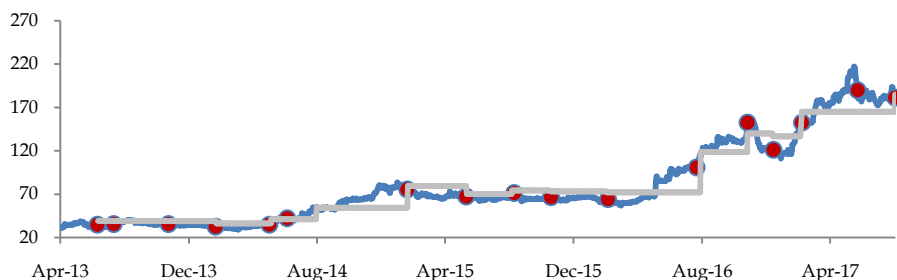
Cash flow

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Net inc. + Depn.	86	127	168	192	249
Non-cash adj.	23	16	1	(19)	(31)
Changes in W.C	(21)	(12)	(50)	(51)	(90)
C.F.O	88	131	119	121	129
Capital exp.	(12)	(14)	(42)	(18)	(19)
Change in inv.	-	(19)	(69)	(60)	(110)
Other invest.CF	(3)	2	6	16	25
C.F - investing	(15)	(32)	(105)	(63)	(104)
Issue of equity	4	3	9	-	-
Issue/repay debt	(9)	(57)	(5)	(10)	-
Dividends paid	(13)	(30)	(8)	(25)	(25)
Other finance.CF	(55)	(10)	(2)	(1)	-
C.F - Financing	(74)	(94)	(6)	(36)	(31)
Chg. in cash	(1)	5	8	22	(1)
Closing cash	2	7	15	37	36

Ratios

Y.E March	FY15A	FY16A	FY17A	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	7.6	9.6	10.0	10.2	11.0
EBIT margin (%)	6.7	8.7	9.2	9.5	10.3
Net profit mgn.(%)	4.1	6.0	7.1	7.5	8.4
ROE (%)	20.3	26.3	27.4	24.5	26.0
ROCE (%)	14.6	17.6	19.3	17.5	18.9
W.C & Liquidity					
Receivables (days)	47.6	51.2	50.8	53.0	51.8
Inventory (days)	72.6	64.7	59.1	66.1	64.8
Payables (days)	60.6	56.1	53.1	60.0	56.9
Current ratio (x)	2.1	2.4	2.4	2.5	2.6
Quick ratio (x)	1.1	1.6	1.3	1.4	1.5
Turnover &Levg.					
Gross asset T.O (x)	8.2	8.3	9.0	9.1	10.1
Total asset T.O (x)	2.5	2.6	2.6	2.3	2.2
Int. covge. ratio (x)	5.7	18.2	94.6	228.9	585.6
Adj. debt/equity (x)	0.2	0.0	0.0	0.0	0.0
Valuation ratios					
EV/Sales (x)	4.5	4.1	3.6	3.3	2.8
EV/EBITDA (x)	58.5	43.4	35.9	32.4	25.6
P/E (x)	109.0	69.0	50.8	44.2	33.3
P/BV (x)	14.7	11.7	8.6	7.0	5.5

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
11-June-13	Accumulate	39
22-July-13	Hold	38
25-Oct-13	Hold	39
22-Jan-14	Accumulate	36
6-May-14	Accumulate	41
31-Jul-14	Hold	54
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

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is 10% or more.
Hold	-	Upside or downside is less than 10%.
Reduce	-	Downside is 10% or more.

Mid Cap and Small Cap;

Buy	-	Upside is 15% or more.
Accumulate*	-	Upside between 10% - 15%.
Hold	-	Absolute returns between 0% - 10%.
Reduce/Sell	-	Absolute returns less than 0%.
To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings 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 to rating.

* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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