

Stock Update

Turbulence behind, clear skies ahead; retain Buy revise PT of Rs227

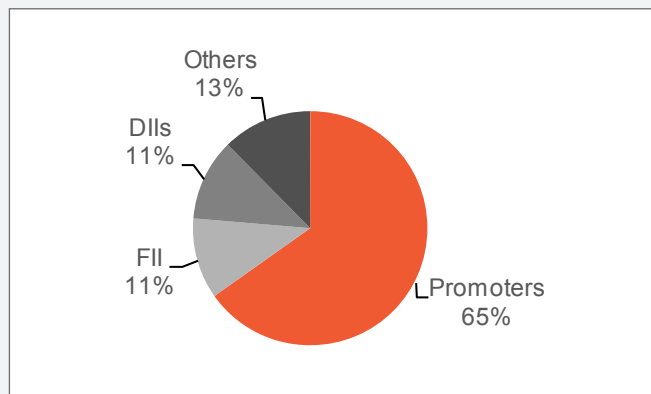
V-Guard Industries

Reco: Buy | CMP: Rs207

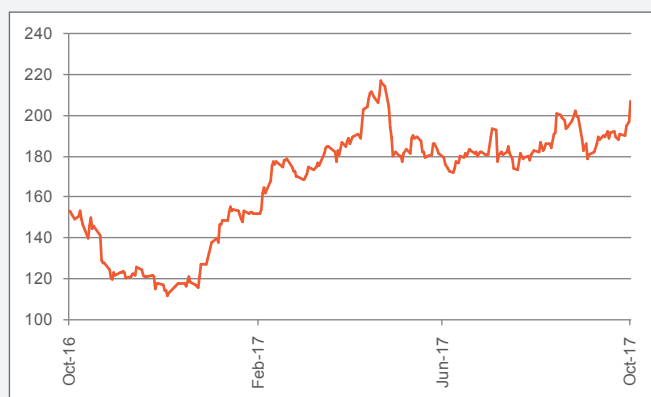
Company details

Price target:	Rs227
Market cap:	Rs8,798 cr
52-week high/low:	Rs221/109
NSE volume: (No of shares)	10.7 lakh
BSE code:	532953
NSE code:	VGUARD
Sharekhan code:	VGUARD
Free float: (No of shares)	14.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.7	16.0	11.3	37.4
Relative to Sensex	9.8	12.9	-0.1	15.4

Key points

- Margin expansion led to healthy earnings growth; topline grew due to restocking effect:** Revenue rose 17% YoY during the quarter to Rs 560 crores with partial recovery in revenues lost due to GST disruption during the previous quarter. On a like to like basis after adjusting for GST impact, revenue growth stands at 21% YoY. This growth is despite muted cables & wires segment (6% YoY growth) and the switchgears segment (decline by 28% YoY) in the wake of a slowdown in the real estate sector. Revenue from rest of the product categories like stabilizers, UPS, pumps, water heaters and fans grew in range of 15-20% YoY in Q2FY2018. Revenue from kitchen appliances jumped 162% YoY to Rs 25 crores with launch of gas cooktops in the dominant Southern markets. Favourable product mix and price hikes led to substantial gross margin improvement of 185bps YoY to 32.2% and Operating Profit Margin (OPM) witnessed improvement of 122bps to 12% driven by operating leverage despite increase in advertising & promotional spend (100bps increase to 5.7%). Healthy operational performance percolated to bottomline which grew by 25% YoY to Rs47 crores during Q2FY2018.
- Aims to be a PAN India player with new product launches in non south market:** V-Guard aims to be PAN India player by adding 15000 retailers over the next five years in the non south market. The Company is also looking to use online platforms like salesforce.com for more effective sales and distribution. V-Guard launched kitchen appliances (Gas cooktops) during Onam season in south market in the quarter which has received good response. Further V-Guard is planning to expand its kitchen appliances portfolio in the non south market with a launch of their gas stove and switchgears portfolio after establishing themselves in the south market. They are planning to launch the modular switches in the dominant south market as a natural extension of wire accessories and switchgear segment in current year. V-Guard is also open for inorganic growth where the company provides product synergy, manufacturing capabilities or a strong regional player where it can expand its geographical presence given the cash positive balance sheet.

- ◆ **Improved working capital cycle on YoY basis:** The net working capital cycle improved by 3 days to 64 days due to reduction in inventory days (restocking effect) and elongated creditor days. V-Guard generated Rs67crore cash flow from operation and has a net cash of Rs103crore which is healthy at end of Q2FY2018.
- ◆ **Retain Buy with revise PT of Rs227:** V-Guard delivered impressive operational performance in Q2FY2018 on back of a healthy topline (restocking in trade channels) and margin improvement (despite increase in commodity cycle). The management expects H2FY2018 to be better than H2FY2017 (impacted by demonetisation and weak onset of summer

season) and price hike taken to combat commodity inflation. Hence, they have guided for 11-12% topline growth for FY2018 due to restatement of topline in the GST regime and an expansion in operating margins due to favourable product mix and better fixed cost absorption. Given this backdrop, we have tweaked our estimates for FY2018 & FY2019 and introduced FY2020 estimates in this report. We continue to assign premium valuation to V-Guard on back of de-leveraged balance sheet, better margin profile, high return ratios and prudent working capital management. Hence we retain Buy rating on the stock with a revised PT of Rs227.

Results					Rs cr	
Particulars	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	
Revenues	560	479	16.9	560	0.1	
RM cost	380	334	13.8	406	(6.4)	
Staff cost	42	35	22.2	43	(1.5)	
Other Exp.	71	59	19.7	78	(9.2)	
Operating Expenses	493	427	15.3	527	(6.5)	
Operating profits	67	51	30.2	33	105.3	
Other Income	2	4	(45.5)	3	(34.9)	
Interest	0	1	(19.1)	0	(2.5)	
Depreciation	5	4	18.9	5	4.4	
PBT	64	51	26.0	31	107.2	
Tax	17	14	28.7	8	129.4	
Adj PAT	46	37	25.0	23	100.0	
Reported PAT	46	37	25.0	23	100.0	
Adj EPS	1.1	0.9	25.0	0.5	100.0	
			bps		bps	
GPM	32.2%	30.3%	185	27.5%	472	
OPM	12.0%	10.7%	122	5.8%	614	
NPM	8.3%	7.8%	54	4.2%	415	
Tax rate	27%	27%	57	25%	263	

Valuations					Rs cr	
Particulars	FY16	FY17	FY18E	FY19E	FY20E	
Net sales	1,862	2,151	2,415	2,825	3,252	
% Y-o-Y growth	6.6	15.5	12.3	17.0	15.1	
Operating margin (%)	9.6	10.0	10.5	11.3	11.3	
Net profit	112	152	184	236	272	
Adjusted EPS	2.6	3.6	4.3	5.6	6.4	
% Y-o-Y growth	56.6	36.0	21.2	28.2	15.3	
PER	78.8	58.0	47.8	37.3	32.4	
P/B	18.7	13.8	11.3	9.2	7.6	
EV/EBIDTA	47.4	38.1	32.5	25.3	21.9	
RoCE (%)	37.2	38.0	35.0	36.6	34.5	
RoNW (%)	26.3	27.4	26.0	27.1	25.6	
RoIC(%)	38.4	43.1	42.1	46.0	45.5	

Product-wise revenue break-up

Particulars	Rs cr				
	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Stabilizer	98	81	21.0	141	(30.4)
UPS (Std+Dig)	66	55	21.2	84	(21.4)
Electronics Segment	165	136	21.1	226	(27.0)
As a % of total	29.4%	28.0%		39.6%	
Pump	56	49	15.4	69	(18.7)
Cables (Hw+LT)	164	156	5.7	158	4.1
Water Heater (Elec+Solar)	99	86	15.3	45	121.1
FAN	39	33	18.0	55	(29.9)
Electrical and Electro Mechanical	358	322	11.0	327	9.5
As a % of total	63.9%	66.3%		57.4%	
Switch Gears	13	18	(28.2)	10	34.0
Kitchen Appliances	25	10	161.1	7	239.7
New products	38	28	37.0	17	122.4
As a % of total	6.8%	5.7%		3.0%	
Total	560	486	15.3	569	(1.6)

Improvement in working capital on YoY basis

Particulars	Q2FY18	Q2FY17	Change	Q1FY18	Change
Inventory days	66	67	(1)	67	(1)
debtors days	52	49	3	37	15
Creditors days	54	49	5	45	9
Net working capital days	64	67	(3)	59	5

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