

V-Guard Industries

BUY

Sector: Consumer Discretionary /Small-Cap | Earnings Update – 1QFY19

2 August 2018

Background: V-Guard Industries (VGIL) was started in 1977 by Mr.Kochouseph Chittilappilly to manufacture and market Voltage Stabilizers under the brand name V-Guard. VGIL emerged as a leading player in the stabilizer segment and became a household brand. V-Guard began to aggressively diversify from 1992 and became a multi product company with presence in Stabilizers, Pumps, Cables, UPS, Water Heaters, Fans, Switch Gear, Induction Cookers and Mixer grinders. In FY18, Company generates 63% of revenue from South and 37% from Non-South. Non- South revenue grew 17.8% YoY to INR 8.6bn and South revenue grew 5.6% YoY to INR 14.6bn. Company has 676 distributors, of which 231 in South and 445 in Non-south. Segment wise revenue breakup: Cables & wires (29.7%), Stabiliser (19.1%), Water Heater (12.3%), Pumps (11.9%), UPS (12.3%), Fan (9.8%), Kitchen appliances (2.5%), switchgears (2.2%), modular switches (0.1%) and air coolers (0.2%).

Sensex	37,165
Nifty	11,245
Price	INR 209
Target Price	INR 244
Recommendation	BUY
52 Week High/Low	INR 254.9/165.1
Bloomberg / Reuters	VGRD IN /VGUA.BO
Equity (shares in mn)	425.8
Mkt. Cap in bn	INR 89.0/\$ 1.3
Avg. Daily Vol. ('000)	1,073.9
Avg. Daily Vol. (mn)	INR 224.4/\$ 3.3

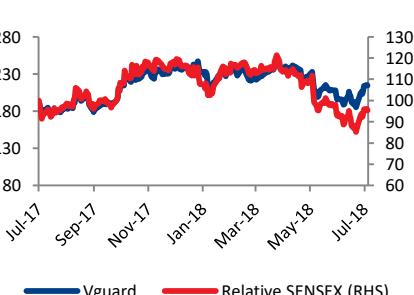
Shareholding	Jun 17	Mar 18	Jun 18
Promoters (%)	65.17	64.31	64.29
FII (%)	11.81	11.79	12.01
DII (%)	9.98	12.40	12.06
Others (%)	13.04	11.50	11.64
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	23.1	26.8	31.5
EBITDA	1.9	2.7	3.5
Adj PAT	1.3	2.0	2.6
Adj EPS	3.1	4.7	6.1
% growth	-12.8	51.6	29.8
PE	67.4	44.5	34.3
P/ BV	11.9	9.9	8.2
EV/EBITDA	47.6	32.8	25.6
EV/Sales	3.9	3.3	2.8
Div Yield (%)	0.3	0.4	0.7
ROE (%)	17.7	24.1	25.9

Performance %

	1M	3M	12M
V-Guard	9.5	-10.8	20.7
Sensex	6.2	6.9	15.7



Gaining momentum in Non-south market, Result Marginally below expectation

- In 1QFY19, VGIL reported a revenue growth of 13.5% YoY to INR 6,349mn (net of GST), marginally below our estimate of INR 6,417mn; According to the management, the growth adjusted for GST related price impact stood at ~19% YoY.
- In terms of geography (reported basis) South markets grew by 4.2%YoY (GST adj. 12% YoY) to INR 3.55bn and accounted for 56% of total sales in 1QFY19. Non south market accounts for 44.1% and grew by 22.5% YoY (GST adj. 30% YoY) to INR 2.8bn.
- UPS segment (Digital & Standalone) which accounts for 16% of 1QFY19 revenue, grew by 16% YoY. Pumps was flat (accounts for 11% of 1QFY19 revenue), cables & wires which accounts for 27% of 1QFY19 revenue grew 10% YoY, stabilizers was flat (accounts for 22% of 1QFY19 revenue), Fans (accounts for 11% of 1QFY19 revenue) grew by 22% YoY and water heater (accounts for 8% of 1QFY19 revenue) grew by 14% YoY. Newly launched products such as Kitchen appliances, air cooler, switch and switchgears (accounts for 4% of 1QFY19 revenue) grew by 102% YoY. Kitchen appliances (accounts for 2% of 1QFY19 revenue) grew by 79% YoY. Switchgears (accounts for 2% of 1QFY19 revenue) grew by 57% YoY. Modular switches and Air cooler posted revenue of INR 32mn and INR 29mn respectively.
- Gross margin improved by 290bps YoY to 30.4% in 1QFY19, on account of favorable product mix and effective pass through of commodity price increase. EBITDA margin expanded by 149bps YoY to 7.3%, below our estimate of 7.9%. ATL spend stood at 4.7% of sales due to spillover of INR 100mn from brand rejuvenation exercise from 4QFY18 and employee cost (+20bps). Adj. PAT grew 48% YoY to INR 344mn (CSEC est. INR 364mn).
- VGIL generated operating cash flow of INR 677mn (1QFY19). Working capital cycle improved by 2 day to 62 days in 1QFY19 due to improvement in creditor days (11 days) and inventory days (7 days), while receivable days increased by 16 days. RoE & RoCE stood at 18.2% and 22.5% respectively.

Valuation: We are positive on the long term prospects of the company, given its market leadership position, strong financial track record, strong levers for margin expansion and quest to become a pan-India player. At CMP the stock trades at 44.5X & 34.3X FY19E & FY20E respectively. We are valuing the company 40XFY20E EPS to arrive at a target price of INR 244 and upgrade the stock to **BUY** rating. **Risks:** Intensification of competition from both foreign and domestic players, and sharp increase in the raw material prices.

Results Summary 1QFY19

Y/E March (INR mn)	1QFY19	1QFY18	YoY Growth	4QFY18	QoQ Growth
Revenue	6,349	5,595	13.5%	6,586	-3.6%
EBITDA	465	326	42.4%	379	22.7%
Depreciation	52	45	16.1%	51	2.3%
Other Income	32	32	2.1%	33	-3.1%
PBT	442	309	43.3%	358	23.6%
Tax	98	76	29.1%	82	19.8%
PAT	344	232	48.0%	276	24.7%
Adjusted PAT	344	232	48.0%	276	24.7%
EBITDA Margin	7.3	5.8		5.7	
Tax Incidence	22.2	24.6		22.9	
PAT Margin	5.4	4.2		4.2	

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