

Rating matrix		
Rating	:	Hold
Target	:	₹ 168
Target Period	:	12 months
Potential Upside	:	-5%

What's changed?	
Target	Changed from ₹ 220 to ₹ 168
EPS FY19E	Changed from ₹ 4.2 to ₹ 3.7
EPS FY20E	Changed from ₹ 5.5 to ₹ 4.8
Rating	Unchanged

Quarterly performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	597.6	563.9	6.0	634.9	-5.9
EBITDA	49.8	67.0	-25.7	46.5	7.3
EBITDA (%)	8.3	11.9	-355bps	7.3	102bps
PAT	38.2	46.5	-17.9	34.4	11.0

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	2,086	2,312	2,557	2,951
EBITDA	208.6	186.9	217.3	283.3
Net Profit	144.6	133.1	155.7	203.7
EPS (₹)	3.4	3.1	3.7	4.8

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	51.7	56.2	48.0	36.8
Target P/E	49.2	53.4	45.7	35.0
EV / EBITDA	35.3	39.6	33.9	26.0
P/BV	11.8	9.9	9.5	8.0
RoNW (%)	22.8	17.7	19.7	21.6
RoCE (%)	32.1	23.7	26.0	28.4

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	7,473.9
Total Debt (FY18) (₹ Crore)	0.0
Cash and Investments (FY18) (₹ Crore)	5.0
EV (₹ Crore)	7,469.0
52 week H/L	255 / 159
Equity capital (₹ Crore)	42.5
Face value (₹)	1.0

Price performance				
	1M	3M	6M	12M
Havells India	(6.4)	(1.5)	11.2	25.0
Bajaj Electricals	(3.5)	(20.3)	(26.9)	22.3
Symphony	(9.1)	(18.7)	(48.8)	(34.6)
V-Guard	(2.5)	(14.5)	(25.6)	(14.8)

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## V-Guard Industries (VGUARD)

₹ 176

### Higher input cost hurts performance...

- V-Guard's Q2FY19 performance was largely impacted by Kerala floods and a weak summer for its products like stabilisers and pumps (both together contributed ~30% to FY18 topline). Hence, the large part of growth in Q2FY19 came in from consumer durable segment (up ~12% YoY) driven by newer products categories like switchgear, kitchen appliances. On the geographical front, non-south markets saw healthy topline growth of ~20%. Revenue contribution from non-south increased from 36% to 40% in H1FY19. However, south region (~60% in topline) has remained a laggard with muted topline growth of ~3% YoY. We believe the key trigger for the topline growth would be an improvement in sales of its flagship products and a demand recovery from southern markets
- EBITDA margin was under pressure mainly due to volatility in commodity prices and rupee depreciation. However, some price hike is on the cards to negate the impact of high input costs. We believe higher ad spends in the coming period would weigh on EBITDA margin expansion, going forward

### Slow demand recovery of flagship products

Though the revision in GST rate in wires and water heater (from 28% to 18%) and simultaneous price cuts would benefit V-Guard in long run, its flagship products (like stabilisers, pumps) demand would be lower. These products are considered to be highly seasonal in nature and recorded a muted performance in H1FY19 with a decline in topline by ~4% YoY. We believe rising competition would weigh on the future performance of these products, which contribute ~30% to topline. On the geographical front, the southern region that contributes ~60% to topline has remained a laggard with topline growth of mere ~3% YoY in H1FY19. We believe rising focus of competition such as Havells and Crompton Greaves Consumer towards southern markets would restrict any price led growth for V-Guard, going forward. On a conservative basis, we model revenue CAGR of 13% in FY18-20E led by ~17% revenue CAGR of consumer product category backed by new products categories.

### Higher raw material prices, rupee depreciation keeps margin under check

Higher raw material prices coupled with rupee depreciation had negatively impacted the gross margin of the company in Q2FY19. Though the company is confident of passing on raw material prices to its customers by taking price hike (by ~3%), we believe rising competition along with expansion in newer geographies (may lead to higher advertisement expenditure) would restrict EBITDA margin expansion to the tune of ~150 bps over the next two years.

### Richly valued; maintain HOLD

We believe addition of new capacity and dealers across India coupled with the launch of premium products would help in revenue, earnings CAGR of 12%, 24% for FY18-20E, respectively. However, expansion in new geographies coupled with rising competition would keep EBITDA margin expansion under check. We believe that at the CMP the stock discounts near term positives of lower working capital requirements and positive free cash flows. At the CMP, the stock is trading at 48x FY19E and 37x FY20E earnings. We value the stock at 35x FY20E earnings and maintain **HOLD** rating on the stock with a revised target price of ₹ 168.

## Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comment
Revenue	597.6	585.0	563.9	6.0	634.9	-5.9	Sales were adversely impacted by high base and floods in Kerala (excluding which growth may have been ~10% YoY)
Other Income	3.9	2.1	2.1	90.4	3.2	21.5	
Raw Material Exp	182.1	196.5	192.0	-5.1	194.2	-6.2	Rupee depreciation coupled with higher raw material prices dragged gross margin by ~235 bps YoY
Employee Exp	50.6	49.7	42.2	19.9	49.8	1.7	
Other Exp	76.6	74.2	71.0	7.9	96.7	(20.8)	Advertisement expenditure related to Onam cut by ~110 bps YoY
Purchase of Traded goods	238.4	200.2	191.6	24.4	247.7	-3.7	
EBITDA	49.8	64.4	67.0	-25.7	46.5	7.3	
EBITDA Margin (%)	8.3	11.0	11.9	-355 bps	7.3	102 bps	Higher raw material & employee cost hurt EBITDA margin during Q2
Depreciation	5.5	5.2	4.7	16.0	5.2	4.2	
Interest	0.3	0.4	0.4	-38.5	0.2	7.4	
PBT	48.0	60.8	64.0	-24.9	44.2	8.7	
Total Tax	9.9	16.6	17.4	-43.5	9.8	0.4	
PAT	38.2	44.2	46.5	-17.9	34.4	11.0	Sharp decline in EBITDA margin resulted in lower PAT growth

## Key Metrics

Electronics	161.4	171.6	164.8	-2.1	240.5	-32.9	Muted performance attributable to ~13% YoY dip in revenue of stabilisers business, which was hurt by lower demand for ACs Sales were largely driven by switchgears (new products) and wires segments, which recorded sales growth of ~49% and ~8% YoY, respectively. However, revenue from the pump segment declined ~4% YoY due to weak summer
Electricals	254.1	242.9	236.0	7.7	261.4	-2.8	Consumer durables remained a major contributor to the sales growth of the company, growing 12% YoY, thus increasing its contribution to total sales by 160 bps to 30.5%. Sales growth was largely driven by kitchen appliances and water heater segment, which grew ~24% and ~11% YoY, respectively
Consumer Durable	182.1	170.5	163.0	11.7	133.0	36.9	

Source: Company, ICICI Direct Research

## Change in estimates

₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,691.1	2557.0	(5.0)	3,118.8	2951.1	(5.4)	We tweak our estimate downside for FY19E-20E considering the lower offtake of company's flagship product i.e stabilisers and pumps due to bad weather. However, new capacity addition in Sikkim and Coimbatore coupled with new product categories would help drive revenue growth, going forward
EBITDA	244.9	217.3	(11.3)	323.7	283.3	(12.5)	
EBITDA Margin %	9.1	8.5	-60bps	10.4	9.6	-80bps	We slightly tweak our margin estimates considering the current quarter performance. We believe higher raw material cost coupled with normalised advertisement & promotional cost would keep margins under check
PAT	177.3	155.7	(12.2)	234.1	203.7	(13.0)	
EPS (₹)	4.2	3.7	(12.2)	5.5	4.8	(13.0)	

Source: Company, ICICI Direct Research

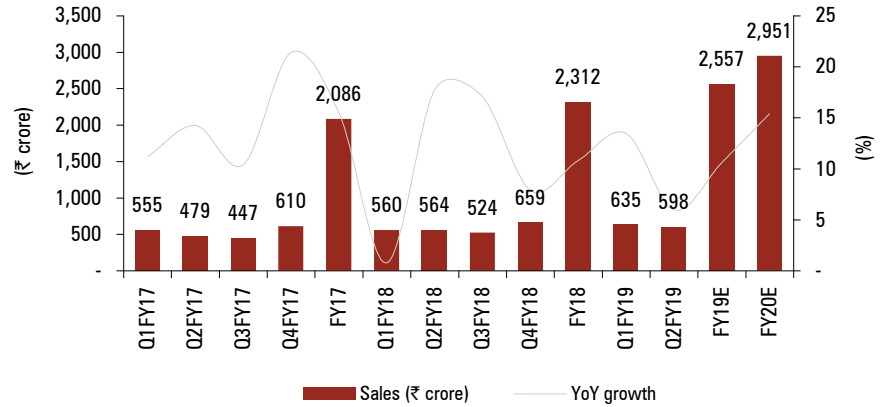
## Assumptions

	Current			Earlier		Comments	
	FY17	FY18	FY19E	FY20E	FY19E		FY20E
Electronics Growth	18.1	9.7	6.5	15.8	13.3	13.5	We revise our stabilisers sales estimates downside for FY19E owing to lower sales growth of air conditioners. However, expansion in new geographies coupled with new launches (digital UPS segment) would help drive electronics segment record revenue CAGR of ~11% in FY18-20E
Electricals Growth	13.1	8.1	9.9	13.4	13.1	15.2	We believe the electrical segment performance would largely be driven by housing wire business led by higher infrastructure spending by the government. In addition to this, new launches in the switchgear segment would also aid segment sales growth
Consumer Durable Growth	8.7	13.1	15.3	18.3	20.7	20.5	Performance of consumer durable segment will be driven by low base of new products like air coolers, smart fans, etc. In addition to this, expansion in non-south regions would further drive the sales of consumer durable segments

Source: Company, ICICI Direct Research

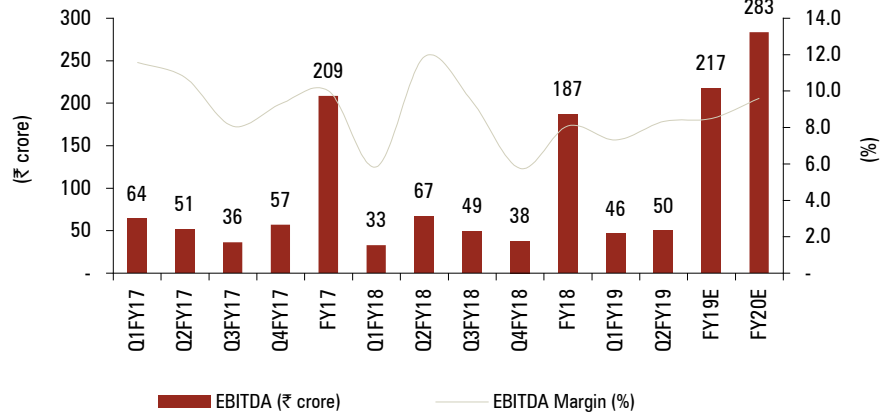
## Company Analysis

**Exhibit 1: Introduction of new products, non-south market drive revenue growth**



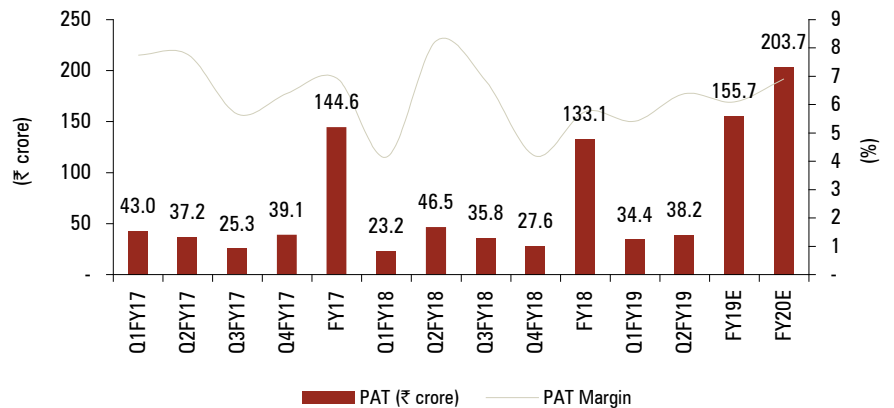
Source: Company, ICICI Direct Research

**Exhibit 2: Higher advertisement & promotional activities to keep margin under check**



Source: Company, ICICI Direct Research

**Exhibit 3: Higher sales growth, flattish EBITDA margin to drive PAT growth**

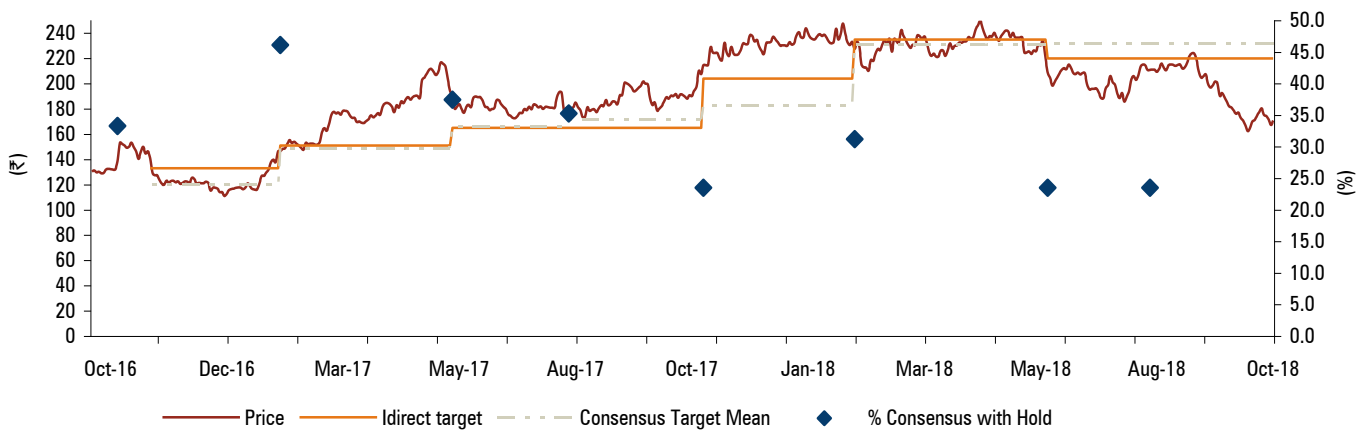


Source: Company, ICICI Direct Research

### Key conference call takeaways

- The performance was impacted by floods in Kerala that reduced Onam buying activity, weak summer conditions and last year's high base due to GST roll out related recovery in Q2FY18. According to the management, adjusting for the revenue loss due to floods, 10% sales growth may have been achieved during Q2
- A weak summer adversely impacted growth in stabiliser and pump categories
- Muted growth of pumps and stabilisers were dampeners for low growth in the south markets
- Revenues were driven by digital UPS, kitchen appliances, water heaters, wires and switchgear segments
- In order to offset rising input cost, the company has taken a price hike to the extent of ~3% at the start of Q3FY19
- Under the wire and cable segment, volume growth was ~6.2% YoY in H1FY19
- Advertisement expenses related to Onam were held back during Q2. They are expected to revert to historical trends of ~4%
- The EBITDA margin for southern regions for H1FY19 came in at ~11.5% against ~4% EBITDA margin of non-south regions
- According to the management, EBITDA margins should revert to ~10% with the price hike and change in product mix, going forward
- The working capital cycle improved to 59 days in Q2FY19 vs. 64 days in Q2FY18

### Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research

### Key events

Date	Event
Mar-09	Commencement of new production facilities at Coimbatore (for LT cable) and Kashipore (for wire)
Jul-10	Stellar performance during FY10 with revenue and earning growth of 43% YoY and 47% YoY, respectively
Jul-11	Another round of good performance during FY11 with revenue and earnings growth of 60% YoY and 67% YoY, respectively
May-12	For FY12, the company recorded revenue and earning growth of 37% YoY and 19% YoY, respectively
Jun-12	Launch of new range of fan "Enviro" with unique magneto motive drive (MMD) technology that can save 50% of energy
Jan-13	Launch of new product induction cook top and mixer grinder
Jul-13	Announcement of doubling the capacity of cable manufacturing unit at Kashipur with investment of ₹ 16 crore
Aug-13	Introduces a new range of water heaters styled pebble in the market
Jan-14	Records flattish EBITDA margin during FY14 mainly due to higher input cost and lower demand for consumer durables during the festive season
Mar-17	Acquires controlling stake in Hyderabad based switchgear manufacturer Guts Electronics

Source: Company, ICICI Direct Research

### Top 10 Shareholders

Rank	Name	Last filing date	%O/S	Position (m)	Change (m)
1	Chittilappilly (Kochouseph)	30-Jun-18	18.6	79.3	0.0
2	Chittilappilly (Mithun K)	30-Jun-18	16.8	71.6	0.0
3	Chittilappilly (Arun K)	30-Jun-18	13.0	55.6	0.0
4	Kochouseph (Sheela)	30-Jun-18	10.9	46.5	0.0
5	Nalanda Capital Pte Ltd	30-Jun-18	6.7	28.4	0.0
6	K Chittilappilly Trust	30-Jun-18	4.9	20.8	0.0
7	Axis Asset Management Company Limited	30-Jun-18	3.8	16.3	-0.4
8	DSP Investment Managers Pvt. Ltd.	30-Jun-18	3.7	15.9	-1.0
9	Sundaram Asset Management Company Limited	31-Aug-18	2.2	9.4	0.2
10	Aditya Birla Sun Life AMC Limited	30-Jun-18	1.5	6.2	0.3

Source: Reuters, ICICI Direct Research

### Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	65.2	64.5	64.3	64.3	64.2
FII	11.2	11.8	11.7	12.2	11.8
DII	11.3	12.2	12.5	11.9	11.4
Others	12.4	11.5	11.5	11.6	12.6

### Recent Activity

Buys				Sells			
Investor name	Value(m)	Shares(m)		Investor name	Value(m)	Shares(m)	
Aditya Birla Sun Life AMC Limited	0.8	0.3		Kotak Mahindra (UK) Ltd	-21.5	-6.9	
Sundaram Asset Management Company Limited	0.6	0.2		DSP Investment Managers Pvt. Ltd.	-2.9	-1.0	
Kotak Mahindra Asset Management Company Ltd.	0.3	0.1		Axis Asset Management Company Limited	-1.2	-0.4	
George (P T)	0.2	0.1		Ramachandran (V)	-0.7	-0.2	
Sharma (Mallikarjuna)	0.1	0.0		Allianz Global Investors Asia Pacific Limited	-0.6	-0.2	

Source: Reuters, ICICI Direct Research

## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Net Sales	2085.6	2311.7	2557.0	2951.1	
Growth (%)	12.0	10.8	10.6	15.4	
Expenses					
Raw Material Expenses	532.8	609.5	716.0	796.8	
Purchase of stock	945.2	1005.7	1048.4	1218.8	
Employee Expenses	143.9	170.2	204.6	230.2	
Administrative Expenses	255.1	339.5	370.8	422.0	
Total Operating Expenditure	1877.0	2124.8	2339.7	2667.8	
<b>EBITDA</b>	<b>208.6</b>	<b>186.9</b>	<b>217.3</b>	<b>283.3</b>	
Growth (%)	17.2	-10.4	16.3	30.3	
Other Income	13.5	11.1	14.6	17.0	
Interest	2.1	1.7	1.4	2.1	
PBDT	220.0	196.4	230.6	298.2	
Depreciation	16.2	19.1	23.0	26.6	
PBT before Exceptional Items	203.7	177.3	207.6	271.7	
PBT	203.7	177.3	207.6	271.7	
Total Tax	59.1	44.2	51.9	67.9	
<b>PAT</b>	<b>144.6</b>	<b>133.1</b>	<b>155.7</b>	<b>203.7</b>	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Equity Capital	42.5	42.6	42.6	42.6	
Reserve and Surplus	591.9	709.0	747.5	899.6	
Total Shareholders funds	634.4	751.6	790.1	942.2	
Total Debt	2.5	0.0	10.0	20.0	
Deferred Tax Liability	4.0	2.9	2.9	2.9	
<b>Total Liability</b>	<b>497.5</b>	<b>640.8</b>	<b>757.9</b>	<b>806.4</b>	
<b>Assets</b>					
Total Gross Block	277.5	328.2	359.7	394.7	
Less Total Accumulated Depreciat	108.9	128.0	151.0	177.5	
Net Block	168.6	200.2	208.7	217.1	
Total Fixed Assets	179.1	207.7	219.7	228.1	
Inventory	274.3	310.5	350.3	444.7	
Debtors	312.1	444.5	420.3	485.1	
Loans and Advances	2.7	3.0	3.3	3.8	
Cash	15.0	5.0	29.1	36.2	
Total Current Assets	632.9	833.3	880.8	1059.7	
Creditors	218.6	328.6	336.3	355.7	
Provisions	31.5	35.2	36.0	38.1	
Total Current Liabilities	293.5	396.7	408.7	435.9	
Net Current Assets	339.4	436.6	472.1	623.8	
<b>Total Assets</b>	<b>497.5</b>	<b>640.8</b>	<b>757.9</b>	<b>806.4</b>	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	144.6	133.1	155.7	203.7	
Depreciation	16.2	19.1	23.0	26.6	
Cash Flow before working capital ch	162.9	153.9	180.1	232.4	
Net Increase in Current Assets	-89.5	-210.4	-23.4	-171.7	
Net Increase in Current Liabilities	74.4	103.3	12.0	27.2	
<b>Net cash flow from operating act</b>	<b>147.9</b>	<b>46.7</b>	<b>168.7</b>	<b>87.9</b>	
(Purchase)/Sale of Fixed Assets	-35.2	-47.8	-35.0	-35.0	
<b>Net Cash flow from Investing act</b>	<b>-141.6</b>	<b>-36.8</b>	<b>-36.0</b>	<b>-37.0</b>	
Inc / (Dec) in Equity Capital	12.4	0.1	0.0	0.0	
Inc / (Dec) in Loan Funds	0.0	0.0	0.0	0.0	
Total Outflow on account of dividend	-35.8	-35.8	-42.9	-51.6	
<b>Net Cash flow from Financing act</b>	<b>1.1</b>	<b>-20.0</b>	<b>-108.6</b>	<b>-43.7</b>	
Net Cash flow	7.3	-10.0	24.1	7.2	
Cash and Cash Equivalent at the beg.	7.6	15.0	5.0	29.1	
<b>Cash</b>	<b>15.0</b>	<b>5.0</b>	<b>29.1</b>	<b>36.2</b>	

Source: Company, ICICI Direct Research

Key ratios		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per Share Data (₹)					
EPS	3.4	3.1	3.7	4.8	
Cash EPS	3.8	3.6	4.2	5.4	
BV	14.9	17.7	18.6	22.1	
DPS	0.8	0.8	1.0	1.2	
Operating Ratios (%)					
EBITDA Margin	10.0	8.1	8.5	9.6	
PAT Margin	6.9	5.8	6.1	6.9	
Return Ratios (%)					
RoE	22.8	17.7	19.7	21.6	
RoCE	32.1	23.7	26.0	28.4	
RoIC	39.0	26.2	29.4	31.6	
Valuation Ratios (x)					
EV / EBITDA	35.3	39.6	33.9	26.0	
P/E	51.7	56.2	48.0	36.8	
EV / Net Sales	3.5	3.2	2.9	2.5	
Market Cap / Sales	3.6	3.2	2.9	2.5	
Price to Book Value	11.8	9.9	9.5	8.0	
Turnover Ratios (x)					
Asset turnover	3.3	3.1	3.2	3.1	
Debtors Days	54.6	70.2	60.0	60.0	
Creditors Days	38.3	51.9	48.0	44.0	
Solvency Ratios (x)					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.1	2.1	2.1	2.3	
Quick Ratio	1.2	1.3	1.2	1.3	

Source: Company, ICICI Direct Research

## ICICI Direct coverage universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Asian Paints (ASIPAI)	1,211	1,180	Hold	116,135	21.9	22.8	28.1	55.4	53.2	43.1	33.9	31.4	25.7	31.6	30.0	32.2	24.4	23.5	25.0
Astral Polytechnik (ASTPOL)	866	1,180	Hold	10,370	14.7	20.1	26.6	59.0	43.1	32.6	41.6	30.3	24.1	22.9	25.0	26.6	17.2	18.2	19.6
Bajaj Electricals (BAJELE)	474	614	Hold	4,837	8.2	22.7	22.3	57.8	20.9	21.2	19.4	14.4	12.6	18.1	17.9	17.9	13.7	21.6	18.0
Havells India (HAVIND)	610	650	Buy	38,058	11.4	13.3	17.1	53.4	45.8	35.6	34.7	29.4	22.7	25.2	28.6	30.7	18.8	21.3	22.7
Kansai Nerolac (KANNER)	364	390	Hold	19,617	9.6	10.1	11.1	38.0	36.1	32.8	24.5	22.9	18.7	24.5	24.4	26.1	16.5	16.6	16.3
Pidilite Industries (PIDIND)	934	1,200	Hold	47,881	18.8	19.5	24.4	49.6	47.8	38.3	41.8	36.4	30.0	33.6	30.9	33.6	27.0	22.6	24.4
Essel Propack (ESSPRO)	88	115	Hold	2,765	5.5	5.6	7.4	15.9	15.6	11.9	6.9	6.5	5.5	18.0	17.5	20.0	15.2	14.3	17.0
Supreme Indus (SUPIND)	986	1,320	Hold	12,525	33.9	40.8	44.8	29.1	24.2	22.0	19.2	17.3	14.7	27.9	28.5	29.7	22.7	22.9	23.0
Symphony (SYMLIM)	931	1,350	Buy	6,513	27.5	23.1	33.1	33.8	40.3	28.1	34.4	38.1	25.2	41.3	29.9	39.1	31.5	26.4	33.8
V-Guard Ind (VGUARD)	176	168	Hold	7,492	3.1	3.7	4.8	56.2	48.0	36.8	39.6	33.9	26.0	23.7	26.0	28.4	17.7	19.7	21.6
Voltas Ltd (VOLTAS)	506	650	Hold	16,735	17.5	21.3	24.5	29.0	23.8	20.7	30.0	24.7	20.6	19.8	25.0	25.0	14.8	19.0	18.8
Time Techno (TIMTEC)	112	175	Buy	2,533	8.0	10.0	12.5	14.0	11.2	8.9	8.5	7.2	6.1	14.9	16.5	18.0	12.2	13.7	14.7

Source: Company, ICICI Direct Research

## **RATING RATIONALE**

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

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