

Stock Update

Soft quarter; Maintain Hold

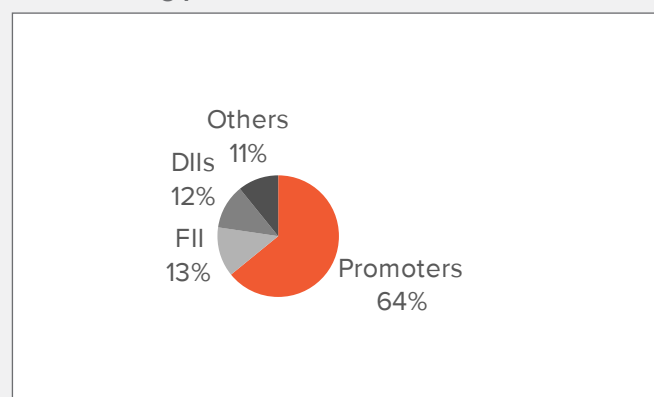
V-Guard Industries

Reco: Hold | CMP: Rs234

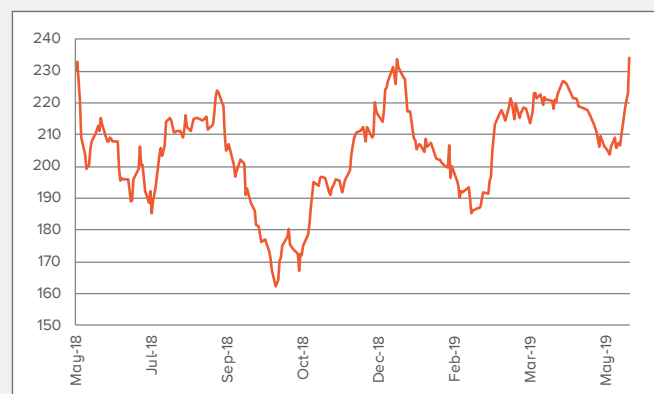
Company details

Price target:	Rs255
Market cap:	Rs9,993 cr
52-week high/low:	Rs237/159
NSE volume: (No of shares)	8.0 lakh
BSE code:	532953
NSE code:	VGUARD
Sharekhan code:	VGUARD
Free float: (No of shares)	15.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.2	11.0	8.2	-0.8
Relative to Sensex	2.9	0.5	-1.3	-13.3

Key points

- Seasonal factors in non-South region affect net earnings:** For Q4FY2019, net sales of V-Guard Industries (V-Guard) rose by 12.3% y-o-y to Rs. 740 crore, marginally below our estimate. The revenue was driven majorly by the electrical segment (14.8% y-o-y, in which sub-category cables grew 24.8% y-o-y) and new product categories (up 61.5% y-o-y in which sub-categories switch gears and kitchen appliances grew by 89.3% and 41.8% y-o-y respectively). Stabilizers reported only 2.8% y-o-y growth on account of lower ac sales in Non-South normalized higher sales in South. UPS segment declined by 6.5% as the company treaded carefully to secure margins and its product mix. The pent up demand in Southern region led to 16.3% y-o-y growth in revenue from that region while non-South region was affected by delayed onset of summer. The operating margins declined 65BPS y-o-y to 10.6% on account of 1) lower growth in high margin stabilizer segment and 2) higher expenditure predicting strong revenue growth. Hence, operating profit grew at a slower pace of 5.8% y-o-y to Rs. 78 crore. The weak operational performance along with higher ETR (25.1% Vs 11.4% in Q4FY2018) led to adjusted net profit (adjusted for higher advertisement spend in Q4FY2018) decline of 6.8% y-o-y to Rs. 59 crore.
- Aiming to revive growth and improve upon margins:** The management is targeting to grow its overall revenue by 15% y-o-y in FY2020 assuming the revival of growth in stabilizer and pumps (each to grow by 10% y-o-y), UPS (up 15-18% y-o-y) and higher contribution of new products (currently 7% of revenue). The company will aim for 10% operating margin (including other income) considering higher share of stabilizer revenue and rationalization of ad spends & employee costs. The company would be incurring capex of Rs. 130-140 crores over the next two years spending mainly on expanding water-heater manufacturing, bringing fans manufacturing in-house and expanding wire manufacturing. The company's board also passed enabling resolution to raise Rs. 750 crores in case it pursues inorganic growth opportunities.

- ♦ **Valuation – We maintain Hold rating with a revised PT of Rs. 255:** V-Guard's growth revival hinges upon better performance of its Stabilizer segment, sustained growth momentum in cables and better pan-out of summer season next year. Although we have factored in almost 15% y-o-y CAGR growth in revenues along with

improvement in margins over FY2019-FY2021E, the stock is currently trading at 38x its FY2021E earnings which provides an unfavourable risk reward ratio. Hence, at this stage, we maintain our Hold rating on the stock with revised PT of Rs. 255.

Results (Standalone)

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenues	740	659	12.3	594	24.5
RM cost	521	466	11.8	416	25.2
Staff cost	53	42	24.9	49	6.9
Other Exp	88	77	14.7	84	4.7
Operating Expenses	662	585	13.1	549	20.4
Operating profits	78	74	5.8	45	73.8
Other Income	7	3	103.0	4	55.3
Interest	0	0	(28.0)	1	(58.3)
Depreciation	6	5	8.4	6	(0.6)
PBT	79	72	10.3	43	83.2
Tax	20	8	142.8	9	109.5
Adj PAT	59	64	(6.8)	34	75.8
Reported PAT	59	28	114.8	34	75.8
Adj EPS (Rs)	1.4	1.5	(6.8)	0.8	75.8
			bps		bps
GPM	29.6%	29.3%	31	30.0%	(43)
OPM *	10.6%	11.2%	(65)	7.6%	300
NPM	8.0%	9.7%	(164)	5.7%	234
Tax rate	25.1%	11.4%	1,372	22%	315

Source Sharekhan; *OPM for Q4FY18 is adjusted for one time advertising spend;

Valuations

Particulars	Rs cr			
	FY18*	FY19	FY20E	FY21E
Net sales	2,312	2,566	2,937	3,396
% Y-o-Y growth	10.8	11.0	14.4	15.7
Operating margin (%)	9.6	8.5	9.5	10.2
Net profit	169	166	212	266
Adjusted EPS (Rs)	4.0	3.9	5.0	6.2
% Y-o-Y growth	16.5	(2.4)	27.8	25.5
PER	58.9	60.4	47.2	37.6
P/B	13.3	11.1	9.4	7.8
EV/EBIDTA	42.1	41.3	32.6	26.0
RoCE (%)	31.0	26.0	27.8	29.3
RoNW (%)	24.4	20.0	21.5	22.6
RoIC(%)	36.8	31.6	33.7	34.4
Div Yield (%)	0.4	0.3	0.4	0.5

Source Sharekhan; *OPM for FY18 is adjusted for one time advertising spend

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