

Sector: Capital Goods
Result Update

	Change
Reco: Buy	↑
CMP: Rs. 240	
Price Target: Rs. 280	↑

↑ Upgrade ← No change ↓ Downgrade

Company details

Market cap:	Rs. 10,252 cr
52-week high/low:	Rs. 252/159
NSE volume: (No of shares)	8.7 lakh
BSE code:	532953
NSE code:	VGUARD
Sharekhan code:	VGUARD
Free float: (No of shares)	15.3 cr

Shareholding (%)

Promoters	64.1
FII	12.7
DII	12.1
Others	11.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.1	5.0	14.9	12.6
Relative to Sensex	0.9	7.7	9.0	8.2

Sharekhan Research, Bloomberg

V-Guard witnessed strong quarter with an improvement of 200 bps+ and 100bps+ in gross and operating margin respectively due to lower volatility in commodity and forex. Hence, the reported and adjusted net profit (adjusting for Rs. 10 crore incremental ad spend in Q1FY2019) grew by 52% and 18% y-o-y. Non-South regions grew at a strong rate of 14.8% y-o-y leading to overall revenue growth of 10% y-o-y. ECD segment revenue grew by 17% y-o-y while electronics grew by just 0.7% y-o-y affected by lower copper prices. The management will be targeting 12-15% revenue growth (with enhanced focus on non-South region with addition of 60-70% retail count of overall 3500-4000 p.a.) for FY2020 and 100bps improvement in gross margin (led by product mix and price increase). We believe V-Guard is in a strong growth trajectory with net earnings expected to grow by 27% CAGR during FY2019-FY2021 led by 15% CAGR in net revenue and 165bps increase in OPM. Hence, we upgrade the stock to buy with revised price target of Rs. 280 (increasing valuation multiple on back of strong earnings growth).

Key positives

- ◆ Electronics and Consumer Durables witnessed strong 16.8% y-o-y growth in revenue. Non-South region witnessed 14.8% y-o-y growth.
- ◆ Gross and operating margin witnessed expansion of 200 bps+ and 100bps+ led by lower volatility in commodity and forex.
- ◆ Improvement in working capital cycle by 11 days y-o-y led by inventory reduction on account of favorable season and higher collections.

Key negatives

- ◆ Affected by trade destocking of wires category, due to a downtrend in copper prices
- ◆ Competitive intensity remains high mainly in Pumps in its dominant Southern market

Our Call

Valuation – We upgrade to Buy with a revised PT of Rs. 280: V-Guard is expected to post strong earnings growth during FY2020 due to low base (Q2 and Q3 of FY2019 was affected by Kerala floods). Further, its focus on non-South region has started bearing fruits in terms of improving overall revenue growth. It is cash positive with Rs. 300 crore which will aid in inorganic expansion (at better valuation in current environment). The management's key focus areas would be increasing non-South presence, expansion into adjacencies and improving efficiencies. We expect revenue/operating profit/net profit to grow at 15.0%/25.7%/26.7% respectively during FY2019-FY2021E. We revise our price target to Rs. 280 increasing valuation multiple owing to multiple growth levers. Consequently, we upgrade V-Guard to Buy.

Key Risks

Unfavourable climatic conditions can have negative impact (on stabilisers, fans and pumps) and increase in competitive intensity.

Valuation (Consolidated)

Particulars	FY18	FY19	FY20E	FY21E
Revenue	2,312	2,566	2,937	3,396
OPM (%)	9.6	8.5	9.5	10.2
Adjusted PAT	169	166	212	266
% YoY growth	16.8	(2.1)	27.8	25.5
Adjusted EPS (Rs.)	4.0	3.9	5.0	6.2
P/E (x)	60.4	61.9	48.4	38.6
P/B (x)	13.6	11.4	9.6	8.0
EV/EBITDA (x)	43.2	42.4	33.4	26.7
RoNW (%)	24.4	20.0	21.5	22.6
RoCE (%)	31.0	26.0	27.8	29.3

Source: Company, Sharekhan Research

Non south region contributes strongly: For Q1FY2020, net sales of V-Guard Industries (V-Guard) rose by 10.2% y-o-y to Rs. 699 crore broadly in-line with our estimates. The revenue was primarily driven by the electronics and consumer durable business. Electronics segment (includes Stabilizers, Digital UPS, UPS and Solar Inverters) grew by 17.6% y-o-y to Rs283 crore and Consumer durables(Solar Water Heaters, Fans, Induction Cooktops, Mixer Grinder, collers etc) registered a growth of 15.3% y-o-y to Rs 153 crore. Electricals (switchgears, wires & Pumps) segment remained flat at Rs263 crore was impacted by trade destocking of wires category caused by downward trend in copper prices. Stabilizers sales remained strong and reported strong growth in value terms on account of higher ac sales in Non-South.

Further, Non-South markets accounted for 46% of the net revenue in Q1FY20 against 44% in Q1 FY19 and reported a 14% y-o-y growth in revenues. The operating margins expanded by 285 BPS YoY to 10.2% v/s 7.3% on lower input cost and lower other expenses (lower ad spends compared to spillover of one time higher ad expense in Q1FY19). The company witness increase in EBIT margins across most segments viz. Electronics (up 823BPS y-o-y), Consumer Durable (up 143BPS y-o-y). Hence, reported and adjusted net profit (adjusting for Rs. 10 crore incremental ad spend in Q1FY2019) grew by 52% and 18% y-o-y coupled with higher other income (doubled y-o-y).

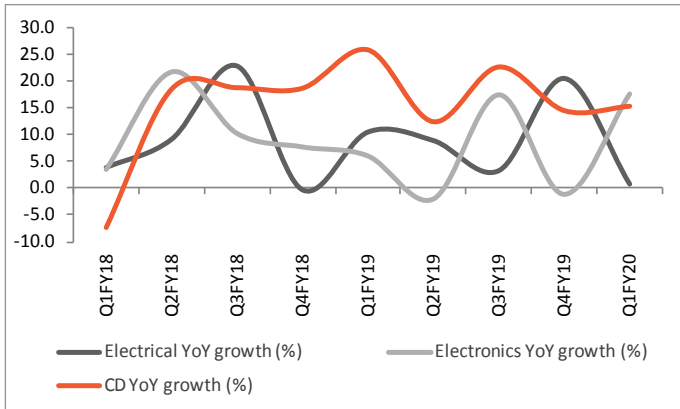
Aiming to revive growth and improve upon margins: The management will be targeting 12-15% revenue growth (aided by increased penetration in non-South region with addition of 60-70% retail count of overall 3500-4000 p.a. for FY2020 and 100bps improvement in gross margin (led by product mix and price increase). The company improved its working capital cycle by 11 days y-o-y led by inventory reduction on account of favorable season and higher collections. V-Guard's focus areas will be increasing non-South presence, expansion into adjacencies and improving efficiencies. Strong cash position may lead to inorganic expansion at favorable valuation considering weak environment

Results (Standalone)					Rs cr
Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenues	699	635	10.2	740	(5.4)
RM cost	472	442	6.7	521	(9.4)
Staff cost	60	50	21.1	53	14.7
Other Exp	96	87	11.0	88	9.2
Operating Expenses	628	578	8.6	662	(5.0)
Operating profits	71	56	25.9	78	(9.0)
Other Income	6	3	99.9	7	(4.6)
Interest	1	0	327.6	0	376.4
Depreciation	7	5	28.8	6	21.5
PBT	70	54	28.7	79	(11.8)
Tax	17	10	76.4	20	(12.9)
Adj PAT	52	44	18.1	59	(11.5)
Reported PAT	52	34	52.5	59	(11.5)
Adj EPS	1.2	1.0	18.1	1.4	(11.5)
			bps		bps
GPM	32.6%	30.4%	216	29.6%	296
OPM *	10.2%	8.9%	127	10.6%	(40)
NPM	7.5%	7.0%	51	8.0%	(51)
Tax rate	24.8%	18.1%	671	25%	(32)

Source: Company; Sharekhan Research * OPM for Q1FY19 is with adjustment for one time advertising spend

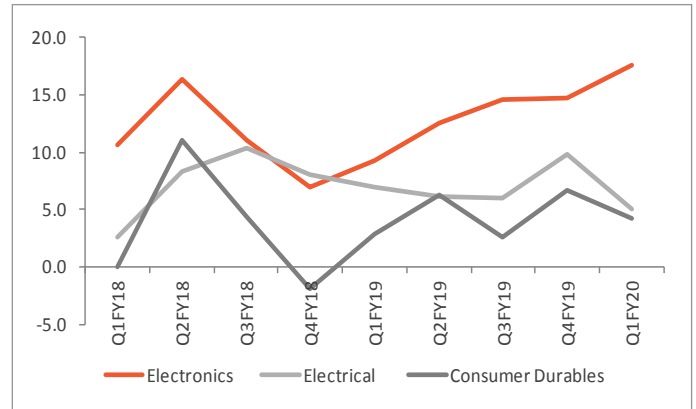
Financials in charts

Segment-wise y-o-y growth trend



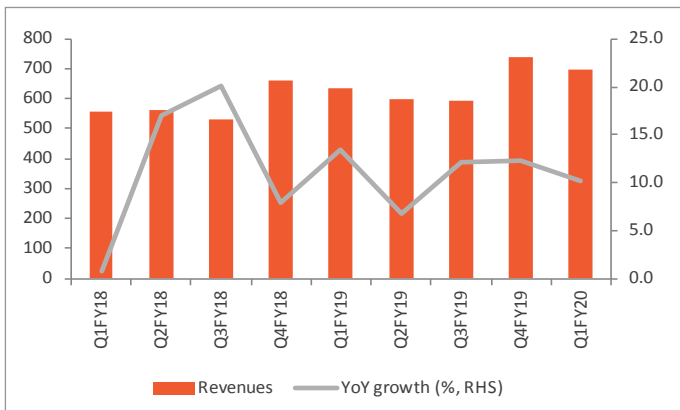
Source: Company; Sharekhan Research

Segment wise PBIT (%) trend



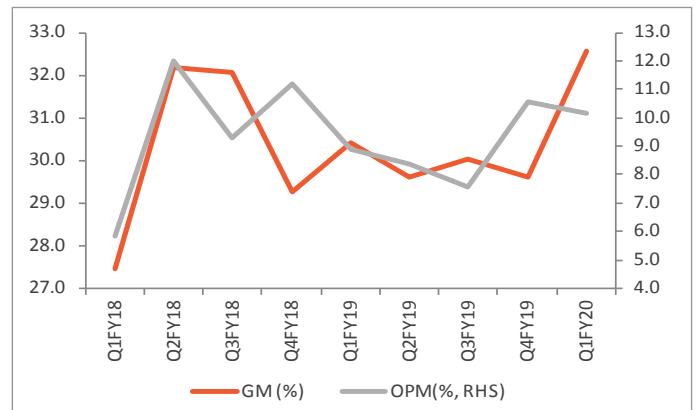
Source: Company; Sharekhan Research

Revenue trend



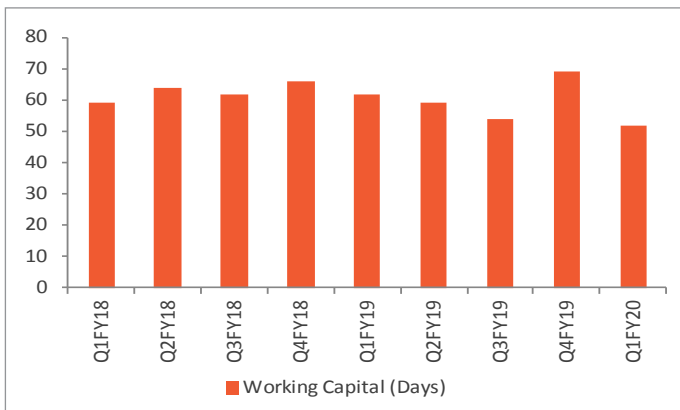
Source: Company Data; Sharekhan Research

Gross Margin and OPM trend



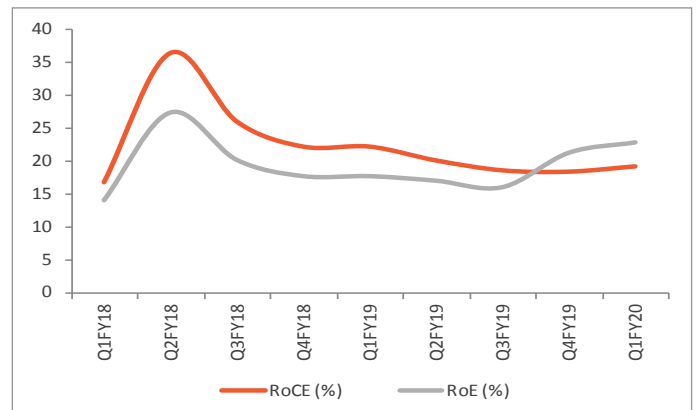
Source: Company; Sharekhan Research

Working Capital Days trend



Source: Company; Sharekhan Research

Return Ratios trend



Source: Company; Sharekhan Research

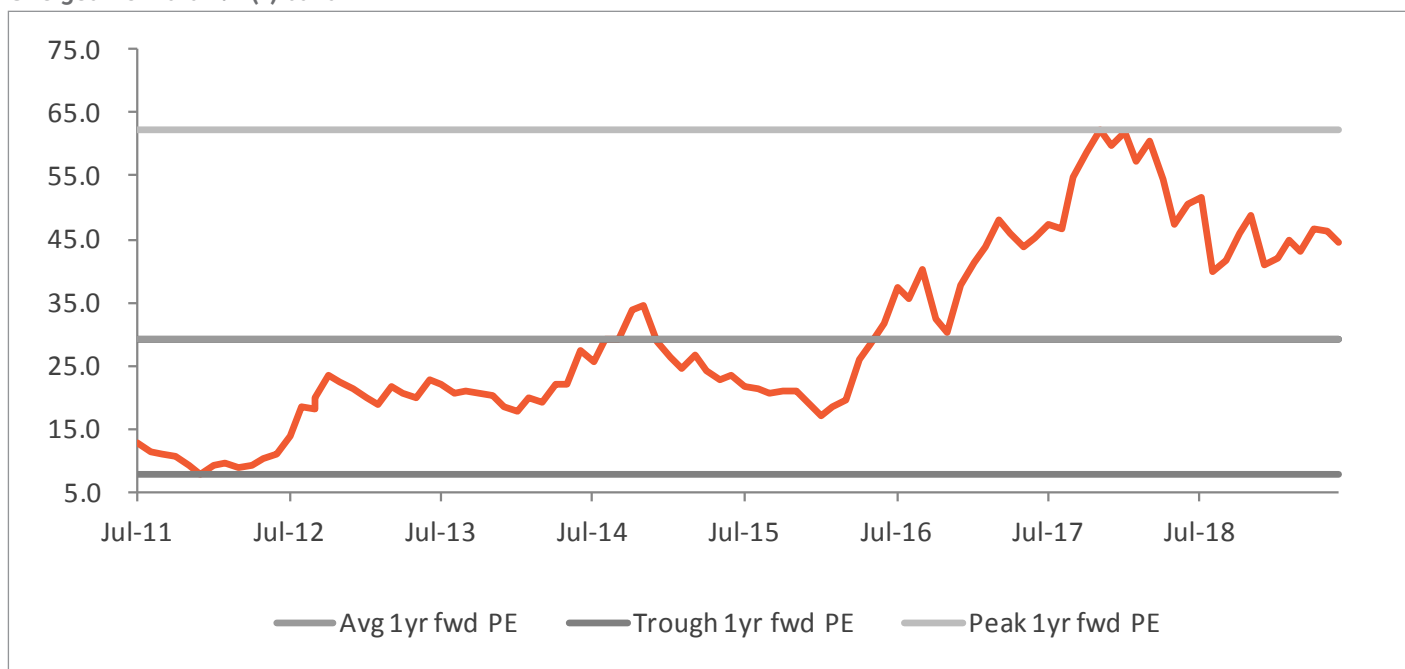
Outlook – V-guard diversification in non-south yielding positive results

V-guard is beginning to replicate its dominance in Non-South regions as with the southern regions. In the long run the company expects equal revenue contribution from both the regions and is in process to achieve that with the increasing distribution reach (about 60-70% retail count addition in non-South out of total 3500-400 p.a.) and product introduction. On like-to-like comparison, the spread between gross margins between the two regions have narrowed to 1.5-2% versus 4-5% five years ago. The cash positive balance sheet enables it to pursue inorganic opportunities at attractive valuation given the weak macro environment. It is looking at companies having product range synergy with V-Guard, providing manufacturing capabilities or strong regional players where V-Guard can expand its geographic footprint.

Valuation – We upgrade to Buy with a revised PT of Rs. 280

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One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Havells India	43.4	34.7	25.6	20.6	9.3	8.4	29.1	33.1
Crompton Greaves Consumer Electrical	34.1	29.4	21.0	18.1	12.1	9.9	36.6	37.2
V-Guard	48.4	38.6	33.4	26.7	9.6	8.0	21.5	22.6

Source: Company, Sharekhan research

About company

V-Guard Industries Ltd is a major electrical appliances manufacturer in India, and the largest in the state of Kerala. V-Guard is one of India's consumer goods company with diversified product offerings. Headquartered in city of Kochi, Kerala, the company now has over 500 distributors, 30,000 retailers, and branches across India. The company manufactures voltage stabilizers, electrical cable, electric pumps, electric motors, geysers, solar water heaters, air coolers and UPSs.

Investment theme

V-Guard Industries is an established brand in the electrical and household goods space, particularly in south India. Over the years, it has successfully ramped up its operations and network to become a multi-product company. The company has a strong presence in the southern region. The company is also aggressively expanding in non-south markets and is particularly focusing on tier-II and III cities where there is lot of pent-up demand for its products.

Key Risks

- ◆ Unfavourable climatic conditions can have negative impact (stabilisers, fans and pumps)
- ◆ Increase in competitive intensity.
- ◆ Volatility commodity prices and forex variations

Additional Data

Key management personnel

Mr. Kochouseph Chittilappilly	Chairman
Cherian Punnose	Vice-Chairman
Mithun K Chittilappilly	Managing Director
V Ramachandran	Director & Chief Operating Officer
Sudarshan Kasturi	Senior VP & CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chittilappilly Kochouseph Thomas	18.5
2	Chittilappilly Mithun K	16.83
3	KOCHOUSEPH SHEELA GRACE	10.88
4	CHITTILAPPILLY ARUN K	8.68
5	KOCHOUSEPH CHITTILAPPILLY	4.87
6	CHITTILAPPILLY KOCHOUSEPH	4.34
7	Nalanda India Equity Fund Ltd	4.28
8	DSP Investment Managers Pvt Ltd	4.11
9	Axis Asset Management Co Ltd/India	3.95
10	Sundaram Asset Management Co Ltd	1.97

Source: Bloomberg

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