

V-Guard Industries

Sector: Consumer Discretionary /Small-Cap | Earnings Update – 1QFY20

BUY

26 July 2019

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	37,917
Nifty	11,293
Price	INR 236
Target Price (12 months)	INR 282
Recommendation	BUY

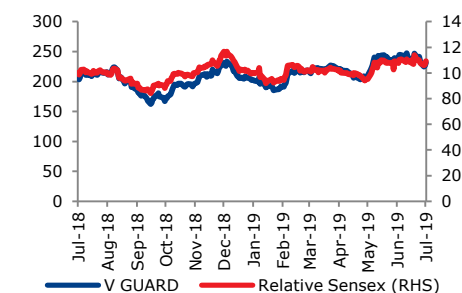
52 Week High/Low	INR 252/159
Bloomberg / Reuters	VGRD IN /VGUA.BO
Equity (shares in mn)	426.9
Mkt. Cap in bn	INR 100.3/\$ 1.5
Avg. Daily Vol. ('000)	947.47
Avg. Daily Vol. (mn)	INR 222.5/\$ 3.2

Shareholding	Jun 19	Mar 19	Jun 18
Promoters (%)	64.10	64.12	64.29
FII (%)	12.67	12.38	11.90
DII (%)	12.08	11.86	12.16
Others (%)	11.15	11.64	11.65
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2019	2020E	2021E
Revenue	25.7	29.8	34.5
EBITDA	2.2	2.8	3.3
Adj PAT	1.7	2.2	2.6
Adj EPS	3.9	5.1	6.1
% growth	24.4	31.8	18.2
PE	60.7	46.0	38.9
P/ BV	11.5	9.7	8.2
EV/EBITDA	45.5	35.5	29.9
EV/Sales	3.9	3.3	2.9
Div Yield (%)	0.4	0.5	0.6
ROE (%)	20.4	22.9	22.9

Performance %	1M	3M	12M
V-Guard	-2.5	4.5	12.2
Sensex	-3.3	-3.1	2.8



Solid growth led by superior product mix

- In 1QFY20, VGIL reported a revenue growth of 10% YoY to INR 7bn (net of GST). Revenue growth was driven by Electronics and Consumer Durables while Electricals Segment was impacted by trade destocking of wires category caused by downward trend in copper prices.
- South markets witnessed a steady growth of 7.1% YoY to INR 3.8bn and accounted for 54% of total sales. The company made good progress in the Non-South markets growing 14% YoY to INR 3.2bn accounting for 46% of company's total sales. VGIL plans to extend their new products to some Non-Southern regions during the year.
- Electronics segment which contains Stabilizers, UPS, Solar Inverter, contributing to 40% of company's revenues grew 17.6% YoY to INR 2.83bn on account of seasonality. Electricals segment which includes wires, pumps, switchgears and modular switches accounting for 38% of the revenue grew a meager 0.7% YoY to INR 2.63bn. Consumer durables segments (Fans, Water Heaters, Kitchen Appliances and Air Coolers) grew 15.3% YoY to INR 1.53bn.
- Gross margin expanded 216bps YoY to 32.6% in 1QFY20, on account of price hikes in select products and favorable product mix. EBITDA margin expanded by 285bps YoY to 10.2% as margins in 1QFY19 were low due to spill-over of high one-time advertisement and promotional expense in 4QFY18. Promotional spends stood at 4.7% of sales compared to 6.4% YoY. Adj. PAT grew by 54% YoY to INR 525mn with a margin of 7.5%.
- VGIL generated operating cash flow of INR 1.8bn in 1QFY20 vs INR 770mn YoY due to working capital efficiency. Working capital cycle improved by 11 days YoY to 51 days in 1QFY20 as favourable seasonality had a huge impact in reducing inventory days and the company also cleaned up on its collection during the quarter. They expect the previous trend to return and said that this was a one-time bump.
- The management reiterated their confidence of achieving 15% YoY top-line growth for the next few years based on expansion into non-Southern markets, introduction of new product categories and foraying into new markets by acquiring smaller regional players. The Company envisages adding 3,500-4,000 retailers across the country every year over the next five years with higher concentration in the non-South region.
- Going forward, the Company shall continue to build upon its competitive positioning in the consumer electricals, electronics and durables industry. The Company will maintain its thrust on advertising and promotions ~4.5% of sales to increase its brand visibility and penetration in the non-South markets under its new brand identity reflecting the company's transformation into a leading multi-product, pan-India player in the Consumer Electricals space. Planned capex for FY20E & FY21E stands at INR 600-700mn each.

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 46X & 39X FY20E & FY21E respectively. We are valuing the company 47X FY21E EPS to arrive at a target price of INR 282 and maintain **BUY** rating. **Risks:** Intensification of competition from both foreign and domestic players, and sharp increase in the raw material prices.

Results Summary 1QFY20

Y/E March (INR mn)	1QFY20	1QFY19	YoY Growth	4QFY19	QoQ Growth
Revenue	6,994	6,349	10.2%	7,397	-5.4%
EBITDA	711	465	53.0%	781	-9.0%
Depreciation	67	52	28.8%	55	21.5%
Other Income	64	32	99.9%	68	-4.6%
PBT	698	442	57.8%	791	-11.8%
Tax	173	98	76.4%	199	-12.9%
PAT	525	344	52.5%	592	-11.5%
Adjusted PAT	525	344	52.5%	592	-11.5%
EBITDA Margin (%)	10.2	7.3		10.6	
Tax Incidence (%)	24.8	22.2		25.1	
PAT Margin (%)	7.5	5.4		8.0	

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