

Lockdown impacts severely...

The second half of March happens to be a strong revenue booking period for V-Guard due to significant offtake of summer based products and annual closing of incentive schemes of various products. According to the company, the lockdown situation impacted revenue, EBITDA to the tune of ₹ 250 crore, ₹ 70 crore, respectively, in FY20. Adjusted with Covid-19 impact, FY20 revenue, EBITDA would have been up 6%, 47%, respectively. Further, the company's improved product mix, benign raw material prices helped drive gross margin up ~330 bps YoY in FY20. It has further guided that while Q1FY21 performance is likely to be impacted by loss of sales of almost 40 days, the business recovery post relaxation from lockdown is encouraging. About ~60% of V-Guard dealers have resumed operations till date (mostly in non-containment area) resulting in sales recovery of ~70% in May compared to the same period last year. The management guided at a normal inventory at trade level by the end of June 2020, which means a relative fast recovery in primary sales for re-filing inventory. While we cut our revenue, earning estimates by 23%, 32%, respectively, for FY21E, we maintain our positive stance on the stock with expectation of a sharp business recovery from FY22E onwards and intact margin profile.

Lower offtake in March dents revenue

Q4 sales declined 28% YoY at ~₹ 537 crore mainly due to lower dealer offtake in lockdown. All three business verticals, electronics, electricals & consumer durable (CD) sales declined ~27%, ~32% & ~20% YoY, respectively, in the quarter. On the geographic front, revenue contribution of non-south region rose to 40.5% in FY20 vs. 38.6% in FY19.

Better mix, benign raw material prices drive gross margin

Gross margins increased 374 bps in Q4FY20, 320 bps YoY despite pressure in topline. Despite expansion in new geographies, rising competition and liquidity issues at dealers level, the company focused on profitable growth over growth through product push at the dealer's level. We believe better gross margin would help drive EBITDA margin upward with sales recovery.

Valuation & Outlook

Despite lower sales, the company has closed the year with highest ever annual gross margin, mainly due to a better product mix and supportive input prices. We believe this margin will sustain, going forward, with focus on increasing in-house manufacturing and reduction in margin gap between south and non-south regions (that is ~1.5%). Further, a strong balance sheet condition and prudent working capital management of the company would help V-Guard to tide over the rough phase. We maintain our **BUY** rating on the stock with a revised target price of ₹ 210/share.



Particulars

Particular	Amount
Market Capitalization (₹Crore)	7,643.8
Total Debt (FY 20) (₹Crore)	10.0
Cash and Inv (FY 20) (₹Crore)	84.7
EV (₹Crore)	7,569.1
52 week H/L	260 / 149
Equity capital (₹Crore)	42.5
Face value (₹)	1.0

Key Highlights

- Severe impact on performance due to lockdown
- Gross margin expanded 370 bps YoY led by favourable mix and benign raw material prices
- Reiterate BUY rating with revised target price of ₹ 210

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	2311.7	2566.4	2482.0	2238.3	2768.6	2.6
EBITDA	186.9	219.4	253.3	212.6	304.5	11.5
EBITDA Margin (%)	8.1	8.5	10.2	9.5	11.0	
PAT	133.1	165.5	185.2	151.0	218.1	9.6
EPS (₹)	3.1	3.9	4.4	3.5	5.1	
P/E(x)	57.4	46.2	41.4	50.9	35.3	
Price /Book Value (x)	10.2	8.5	7.7	7.4	6.5	
EV/EBITDA (x)	40.5	34.1	29.6	35.6	24.8	
RoE (%)	17.7	18.4	18.6	14.5	18.2	
RoCE (%)	23.7	23.7	24.8	19.1	23.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comment
Revenue	536.6	802.4	739.7	-27.5	626.6	-14.4	Sales growth was impacted by lockdown in March
Other Income	5.2	5.9	6.8	-23.2	5.4	-4.7	
Raw Material Exp	59.5	206.8	186.0	-68.0	195.8	-69.6	Change in product mix coupled with benign raw material prices drove gross margin up 374 bps YoY
Employee Exp	43.2	58.9	52.5	-17.9	58.4	(26.1)	
Other Exp	90.6	117.1	88.2	2.7	90.2	0.4	Advertisement & promotional expense (down 100 bps YoY during Q4FY20)
Purchase of Traded goods	298.2	347.6	334.8	-10.9	222.8	33.9	
EBITDA	45.2	72.0	78.1	-42.2	59.4	-24.0	
EBITDA Margin (%)	8.4	9.0	10.6	-215 bps	9.5	-107 bps	EBITDA margin largely impacted by low operating leverage
Depreciation	7.1	7.0	5.5	27.8	7.3	-3.3	
Interest	0.9	1.1	0.2	286.2	1.0	-13.0	
PBT	42.4	69.8	79.1	-46.4	56.5	-25.0	
Total Tax	9.9	17.5	19.9	-50.3	13.7	-27.6	
PAT	32.5	52.4	59.2	-45.1	42.9	-24.2	Impacted by lower sales and decline in EBITDA
Key Metrics							
Electronics	150.3	215.0	205.5	-26.8	153.8	-2.3	
Electricals	242.2	393.7	355.2	-31.8	270.9	-10.6	
Consumer Durable	144.1	193.6	179.0	-19.5	202.0	-28.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	%chg	Old	New	%chg	
Revenue	2,903.5	2238.3	(22.9)	3,278.0	2768.6	(15.5)	Revised estimates downwards incorporating the impact of lockdown
EBITDA	296.2	212.6	(28.2)	363.9	304.5	(16.3)	
EBITDA Margin %	10.2	9.5	-70bps	11.1	11.0	-10bps	
PAT	221.5	151.0	(31.8)	269.0	218.1	(18.9)	
EPS (₹)	5.2	3.5	(31.9)	6.3	5.1	(18.9)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Electronics Growth	4.2	-0.7	-15.2	29.6	5.5	13.3	We estimate recovery in business from Q4FY21E onwards supported by better demand of cooling products
Electricals Growth	11.0	-6.7	-11.2	19.2	2.5	10.6	We believe recovery in construction activity would drive demand for wire, pump and new launches in switchgear segment
Cons. Durable Growth	17.9	-0.5	-1.6	24.2	11.2	16.0	Performance of consumer durable segment will be driven by low base of new products like kitchen appliances, air coolers, smart fans, etc

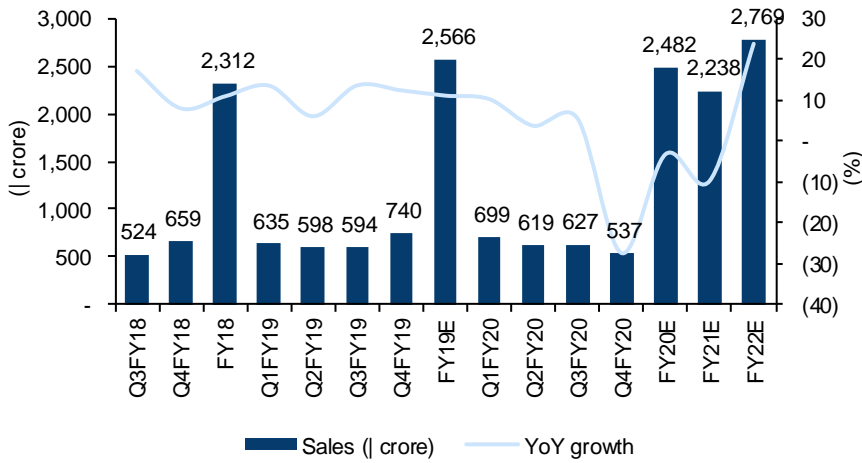
Source: Company, ICICI Direct Research

Conference call highlights

- The second half of March tends to be a strong period due to pre-buying of summer products (at dealer's level) and also due to closing of annual schemes & incentives
- Hence, the company lost revenue and EBITDA of ~₹ 250 crore and ~₹ 70 crore, respectively, in FY20 due to lockdown (adjusted with Covid-19 impact, the revenue and earnings would have been up 6% and 33%, respectively, in FY20)
- Despite lower topline growth, gross margins expanded ~330 bps YoY in FY20 led by disciplined pricing action, improved product mix
- Contribution of non-south regions in topline increased to 40.5% in FY20 against 38.6% in FY19
- Gross margin difference between south, non-south regions is 1.5%
- Sales in April were zero. Further, ~60% of the company's dealers have resumed business by the end of May 2020
- With partial opening of business in May (with easing in restrictions), revenues for the month were about 70% of corresponding month of the previous year
- Southern and eastern markets witnessed a sharp recovery in the business due to fewer Covid-19 cases. Of the total revenue, southern regions contribute ~60% to the topline while eastern regions contribute ~15%
- The metro regions, which are largely under the containment zones, contribute ~15% to total revenue
- The initial signs of a business recovery are encouraging with all products gaining good traction. However, it is too early to judge the business recovery with just a month of operations
- By the end of March 2020, the company had inventory of 105 days (against normalised 75 days) due to lockdown while at the dealer's level, inventory was at ~35 days. While the company has started primary sales in certain pockets, it expects inventory at trade level to normalise in June and July 2020
- Among product categories, fans, wires, switchgears saw good demand traction due to restart of construction activities in some pockets
- In the current situation, the companies that have a deep rural network would benefit most
- The unorganised players were severely impacted by a cash crunch. A good amount of market share may shift to organised players in the coming years
- The company plans to rationalise cost for FY21 (as it deferred the annual salary hike of employees) and curtailed advertisement expenditure (that is ~4.5% of sales)
- Capex for FY20 was at ₹ 90 crore. Current year capex is likely to be ~₹ 40 crore considering the slow demand

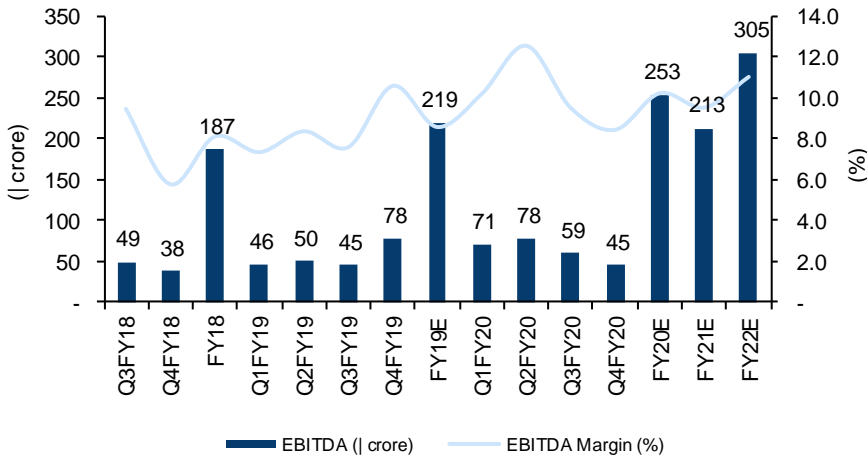
Financial story in charts

Exhibit 4: Revenue growth led by emerging product categories



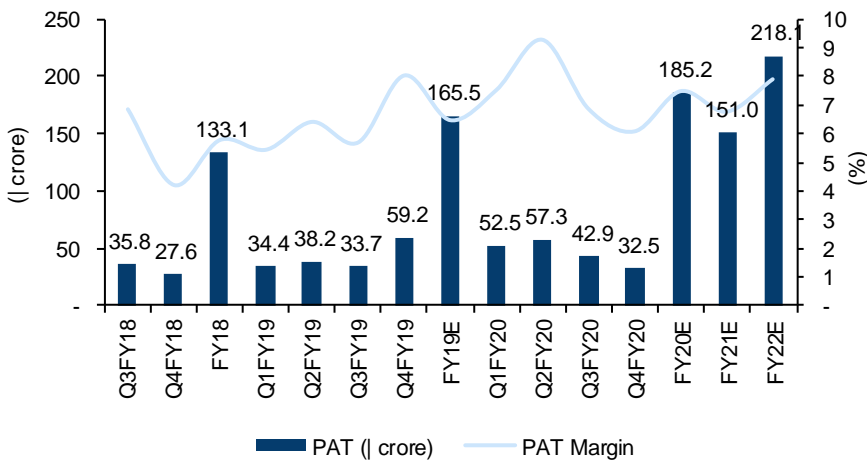
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



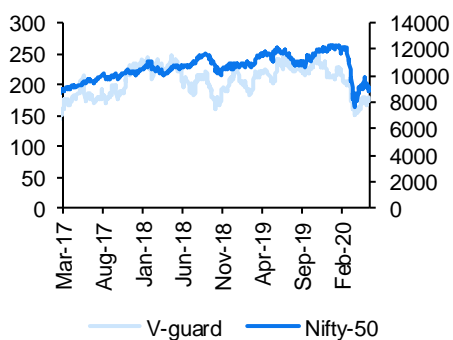
Source: Company, ICICI Direct Research

Exhibit 6: PAT growth led by margin expansion



Source: Company, ICICI Direct Research

Exhibit 7: Historical price trend



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-19
Promoter	64.1	64.1	64.1	62.8	62.7
FII	12.4	12.7	12.9	13.5	13.4
DII	11.8	12.1	12.1	13.1	13.4
Others	11.7	11.1	10.9	10.6	10.5

Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Net Sales	2566.4	2482.0	2238.3	2768.6	
Growth (%)	23.1	-3.3	-9.8	23.7	
Expenses					
Raw Material Expenses	735.9	635.9	626.7	775.2	
Purchase of stock	1063.2	1022.3	861.8	1065.9	
Employee Expenses	202.0	206.8	201.4	235.3	
Administrative Expenses	345.8	363.7	335.7	387.6	
Total Operating Expenditu	2347.0	2228.7	2025.7	2464.0	
EBITDA	219.4	253.3	212.6	304.5	
Growth (%)	5.2	15.4	-16.0	43.2	
Other Income					
Other Income	18.3	24.0	25.5	32.5	
Interest	1.3	3.7	2.1	3.5	
PBDT	236.4	273.5	236.1	333.6	
Depreciation	21.8	28.1	35.8	44.3	
PBT before Exceptional lte	214.6	245.4	200.3	289.3	
PBT	214.6	245.4	200.3	289.3	
Total Tax	49.1	60.3	49.3	71.2	
PAT	165.5	185.2	151.0	218.1	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Equity Capital	42.7	42.8	42.8	42.8	
Reserve and Surplus	857.0	950.9	996.1	1152.3	
Total Shareholders funds	899.7	993.8	1038.9	1195.1	
Total Debt	10.0	10.0	20.0	30.0	
Deferred Tax Liability	2.2	0.0	0.0	0.0	
Total Liability	497.5	640.8	757.9	915.6	
Assets					
Total Gross Block	363.6	445.6	571.5	641.5	
Less Total Accumulated L	149.8	177.9	213.7	258.0	
Net Block	213.8	267.8	357.8	383.5	
Total Fixed Assets	221.5	334.6	368.8	394.5	
Inventory	370.9	476.4	459.9	546.1	
Debtors	467.2	321.8	374.1	462.7	
Loans and Advances	9.4	8.6	2.9	3.6	
Cash	84.7	111.5	57.8	80.4	
Total Current Assets	1004.7	1021.6	987.9	1208.0	
Creditors	356.1	300.7	257.6	318.6	
Provisions	42.4	46.0	39.4	48.8	
Total Current Liabilities	443.7	399.3	344.5	426.1	
Net Current Assets	561.1	622.2	643.4	782.0	
Total Assets	497.5	640.8	757.9	915.6	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	165.5	185.2	151.0	218.1	
Depreciation	21.8	28.1	35.8	44.3	
Cash Flow before working capital ch	188.6	217.0	188.9	265.9	
Net Increase in Current Assets	-91.7	10.0	-20.0	-197.6	
Net Increase in Current Liabilities	46.9	-44.3	-54.9	81.6	
Net cash flow from operating act	143.9	182.7	114.0	149.9	
(Purchase)/Sale of Fixed Assets	-35.6	-141.2	-70.0	-70.0	
Net Cash flow from Investing act	-55.4	-61.0	-69.8	-72.0	
Inc / (Dec) in Equity Capital	0.1	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	-42.9	-46.1	-51.4	-61.8	
Net Cash flow from Financing act	-8.7	-94.8	-98.0	-55.3	
Net Cash flow	79.7	26.9	-53.7	22.6	
Cash and Cash Equivalent at the beg.	5.0	84.7	111.5	57.8	
Cash	84.7	111.5	57.8	80.4	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Per Share Data (₹)					
EPS	3.9	4.4	3.5	5.1	
Cash EPS	4.4	5.0	4.4	6.1	
BV	21.2	23.3	24.3	27.9	
DPS	1.0	1.1	1.2	1.4	
Operating Ratios (%)					
EBITDA Margin	8.5	10.2	9.5	11.0	
PAT Margin	6.4	7.5	6.7	7.9	
Return Ratios (%)					
RoE	18.4	18.6	14.5	18.2	
RoCE	23.7	24.8	19.1	23.9	
RoIC	28.3	28.6	18.6	23.8	
Valuation Ratios (x)					
EV / EBITDA	34.1	29.6	35.6	24.8	
P/E	46.2	41.4	50.9	35.3	
EV / Net Sales	2.9	3.0	3.4	2.7	
Market Cap / Sales	3.0	3.1	3.4	2.8	
Price to Book Value	8.5	7.7	7.4	6.5	
Turnover Ratios (x)					
Asset turnover	2.8	2.5	2.1	2.3	
Debtors Days	66.4	47.3	61.0	61.0	
Creditors Days	50.6	44.2	42.0	42.0	
Solvency Ratios (x)					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.1	2.3	2.7	2.6	
Quick Ratio	1.2	1.1	1.4	1.4	

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
Asian Paints (ASIPAI)	1,709	1,900	Buy	1,63,893	29.9	32.5	38.6	57.2	52.6	44.3	36.3	33.1	27.9	30.7	31.5	33.5	26.6	26.3	27.8
Astral Polytechnik (ASTP)	945	900	Hold	14,238	16.6	14.2	20.0	57.0	66.3	47.2	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Havells India (HAVIND)	549	575	Buy	34,252	11.7	7.8	13.2	46.7	70.1	41.5	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	382	415	Buy	20,587	9.9	7.8	10.4	38.5	48.9	36.7	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,490	1,485	Buy	76,389	25.0	26.7	31.3	59.6	55.8	47.6	37.9	35.8	30.5	32.7	30.6	30.9	26.6	24.5	24.6
Supreme Indus (SUPINC)	1,042	1,040	Hold	13,236	38.5	36.8	27.6	39.7	28.3	37.7	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5
Symphony (SYMLIM)	898	1,055	Buy	6,282	26.0	23.7	35.1	34.5	37.9	25.6	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
V-Guard Ind (VGUARD)	180	210	Buy	7,662	4.4	3.5	5.1	41.4	50.9	35.3	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2
Volta Ltd (VOLTAS)	558	635	Buy	18,455	15.8	9.5	21.4	35.4	58.8	26.0	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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