

Reduce

The theme of resilience resounds throughout the V-Guard annual report. The management is happy with the financial strength of the company and wants to see the pandemic and post pandemic era as an opportunity to make the organization stronger, competitive and better positioned to drive maximum benefit out of the eventual economic recovery. While it terms FY21 as a transitional year, It plans to use this time to invest in product and distribution especially in non-south, including strengthening its e-commerce play, while also enhancing cost competitiveness through more inhouse manufacturing.

On a transformation journey

The company has moved ahead with various transformational initiatives which it had embarked on over the last few years. Through a reoriented marketing strategy, it is shifting gears in the non-south markets as well as preparing for the Ecom channel. It has plans to expand its presence in the non-South region by enhancing distribution network and brand visibility. It's A&P thrust will be on non-south markets, where it expects to gain share. Its product launches also get transformed. Typically, product introductions are made in the Kerala market followed by the other southern states but increasing e-com would mean pan-India reach.

Strong balance sheet with focus on cash

The company is cognizant of the upcoming challenges arising out of the pandemic and has initiated cost containment measures to avoid discretionary expenses and to improve the effectiveness of spends. Whilst the business is supported with a strong balance sheet, the company is also exercising prudence with respect to making investments so as to maintain comfortable liquidity. Cash flow generation in FY20 was Rs1.4bn vs 1.5bn with year-end cash position of Rs1.4bn, lower mainly due to inventory. It has still maintained good ROE at 18.6% and ROCE at 22.5%.

Focus on premium products leading to more inhouse manufacturing

The company is steadily migrating from outsourcing to in-house manufacturing to derive cost competitiveness, enable innovation and build an agile supply chain. With a focus to drive premiumization, the company needs more control on the supply chain and thus quality of the products. The Company is focusing on Six Sigma, TPM, lean manufacturing, etc at its plants. The share of outsourced products has dropped 500bps from 60% in FY17 to 55% in FY20. Its medium-term target is to bring this down to 40%.

CMP	Rs 180
Target / Upside	Rs 190 / 6%
BSE Sensex	37,903
NSE Nifty	11,133

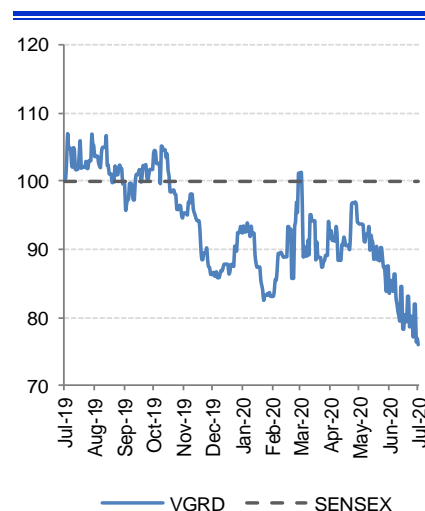
Scrip Details

Equity / FV	Rs 428mn / Rs 1
Market Cap	Rs 77bn
	USD 1bn
52-week High/Low	Rs 259/Rs 149
Avg. Volume (no)	436,190
NSE Symbol	VGUARD
Bloomberg Code	VGRD IN

Shareholding Pattern Mar'20(%)

Promoters	62.7
MF/Banks/FIs	14.5
FIIs	13.4
Public / Others	9.4

V-Guard Relative to Sensex



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Annual Report Macro View

Key Management	Mr. Cherian N Punnoose has become Chairman, after serving as vice chairman for 7 years. Mr. Kochouseph Chittilappilly who was Chairman earlier and is now supporting the company as Chairman Emeritus.		
Board of Directors	Mr. B Jayaraj has replaced Mr. A K Nair as Director.		
Auditors	No changes. M/s. S R Batliboi & Associates LLP continue to be the auditors of the company.		
Pledged Shares	No shares were pledged during the year.		
Key Holders	Category of Shareholder (%)	FY2020	FY2019
	A. Promoters & Promoter Group	62.73	64.12
	B. Public Shareholding	37.27	35.88
	C. Shares held by Employee Trusts	0.00	0.00
	Total	100.00	100.00

FY20 Performance & Developments

- The Company reported revenue for FY20 at Rs.24.8 bn, down by 3.3% YoY.
- Revenue growth for the year was impacted due to macroeconomic slowdown and disruption caused by COVID-19 pandemic outbreak towards the end of the Financial Year.
- The gross margins were at 33.2% in FY20 as compared to 29.9% in FY19.
- Employee cost as a % of total operating income was 8.3% in FY20 as compared to 7.9% in FY19.
- The EBIDTA excluding Other Income and Finance Income for FY20 was Rs.2.6bn compared to Rs.2.2bn in FY19. While EBITDA margins grew by 165bps to 10.2% in FY20.
- The Board endeavours to maintain a dividend pay-out in the range of 15-25% of the Company's Profit After Tax on standalone financials.

Business Segment Analysis

ELECTRICALS

- Contributed 43% to FY20 revenue.
- The YoY de-growth for FY20 was 6.7% to Rs.10.5 bn.
- Drivers for growth are home construction activity, weather conditions and consumption spending.
- The electrical portfolio caters largely to the real estate market which has been under stress for the last few years and has not shown any significant recovery and continues to impact the segment.

ELECTRONICS

- Contributed 30% to FY20 revenue.
- The YoY de-growth for FY20 was 0.7% to Rs.7.5 bn.
- Strong growth in the early part of the year subsequently decelerated due to weak consumption demand and lockdown/disruptions witnessed across the country towards the end of the year.

CONSUMER DURABLES

- Contributed 27% to FY20 revenue.
- The YoY de-growth for FY20 was 0.5% to Rs.6.7 bn.

Strategy & Outlook

- Near term visibility remains uncertain from a wider perspective. However, once normalcy returns, the Company is confident of reverting to top-line growth of 15% driven by increased scale in non-South markets and introduction of new/innovative products and entry into additional product categories.
- The Company is focused on putting in place best-in-class processes and systems to future-proof the organization, including enhancing capabilities in new product development, quality control and salesforce automation.

- The Company envisages the non-South markets, which currently contribute 40% to revenues, to contribute to 50% over the next five years.
- Currently, in-house manufacturing stands at 45%. As a strategy, once a product gains sufficient scale, the Company transitions to in-house manufacturing and the share from own-manufactured products is expected to reach 60% in the medium term.

Profit and Loss Analysis

- The Company reported revenue for FY20 at Rs.24.8 bn, down by 3.3% YoY.
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- Employee cost as a % of total operating income was 8.3% in FY20 as compared to 7.9% in FY19.
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- Depreciation for FY20 increased to Rs.2.8bn compared to Rs.2.2bn in the previous year.

Balance Sheet Analysis

Particulars (Rs. mn)	FY20	FY19
Gross Debt	128	141
Net Debt	-988	-716
Total Equity	9,991	9,019
Gross Debt to Equity	0.01x	0.01x
Net Debt to Equity	Net debt free	Net debt free

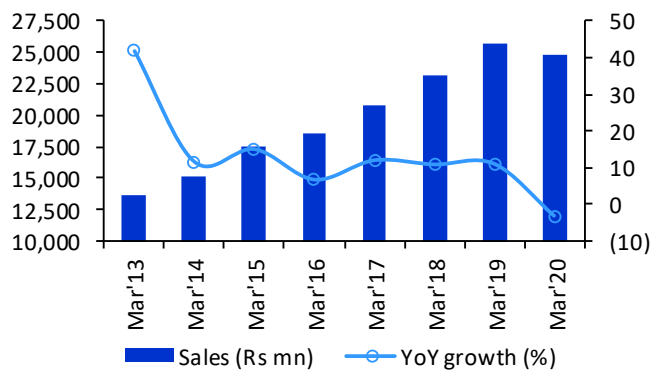
- Trade receivables for FY20 was Rs.3,243 mn vs Rs.4,591 in FY19. Trade receivables are net of Rs.551 mn and Rs.676 mn for FY20 and FY19 respectively, which represents discounts and rebates/trade incentives due to customers.
- As at March 31, 2020 the Group had available Rs.3,122 mn of undrawn committed borrowing/ credit facilities.
- The Company has arranged Channel Finance Facilities for its customers from various banks. As per the terms of these facilities, should the customers default in making payment, after exhausting other modes of recovery the bankers have recourse on the Company upto Rs.100 mn.
- The short term borrowing carries interest varying from 8.35% to 10.15% p.a.
- Capital Commitments (Net of advances), which are the estimated amount of contracts remaining to be executed on capital account and not provided for were Rs.88.5 mn for FY20.
- The contingent liabilities for FY20 was Rs.1,639 mn of which Rs.1,311 mn pertains to bank guarantees.
- Commitments and contingent liabilities as a % of networth is at 17.3%.
- The company has considered the likelihood of increased credit risk and consequential default considering emerging situations due to COVID-19. On the basis of an assesment, the allowance for doubtful trade receivables of Rs.340.8 mn as at March 31, 2020 was considered adequate.

Cash Flow and Ratio Analysis

- The cash flow from operating activities has fallen by 9.1% YoY to Rs.1,394 mn. Company has paid taxes of Rs.761.8mn during the year.
- Net cash flow further from investing activities declined to negative Rs.1,104 mn in FY20 vs. negative Rs.497.9 mn in FY19. Here we say a strategic shift from current investments to fixed deposits.
- The board declared an interim dividend of Rs.0.9 per share on FV in FY20. March 20, 2020.
- The cash conversion cycle for FY20 increased to 86 days compared to 68.2 days in FY19 on account of higher inventory levels in FY20.
- The RoE and ROCE remained stable YoY at around 18.6% and 21.6% respectively.
- EBITDA/OCF increased from 1.43x to 1.82x and EBITDA/FCF increased from 2.15x to 4.57x during the year.

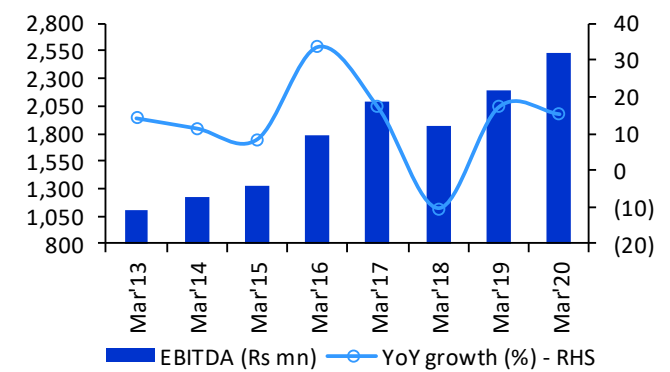
Financial Metrics and Charts

Exhibit 1: Sales & Growth (%)



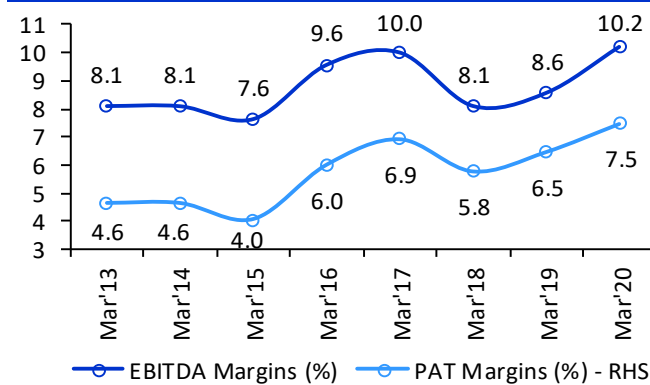
Source: Company, DART

Exhibit 2: EBITDA and margin (%)



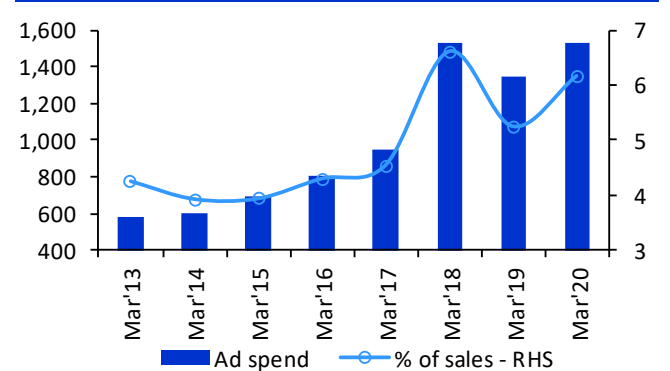
Source: Company, DART

Exhibit 3: Margin Profile (%)



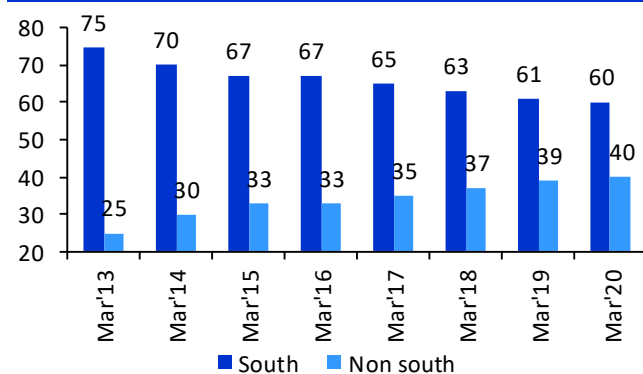
Source: Company, DART

Exhibit 4: AP Spend (% to Sales)



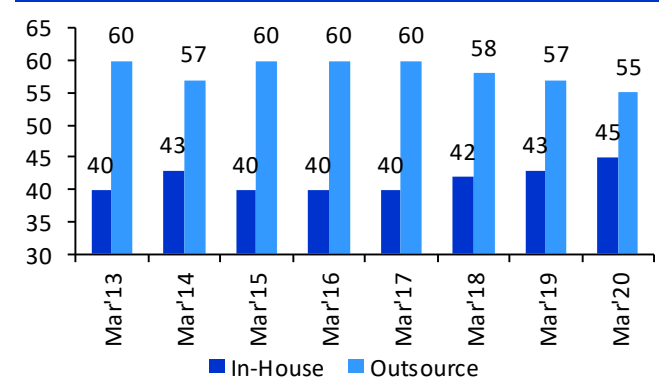
Source: Company, DART

Exhibit 5: Contribution from Non-south in increasing

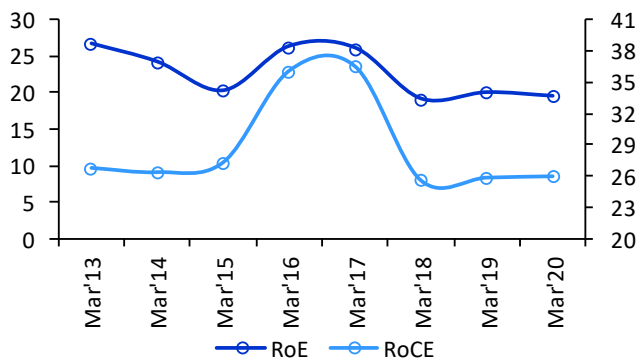


Source: Company, DART

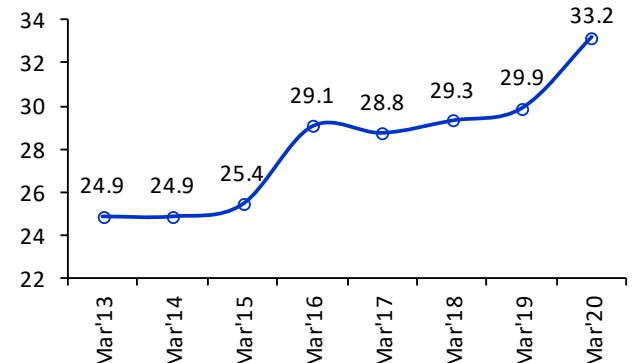
Exhibit 6: Mix improving for own manufacturing



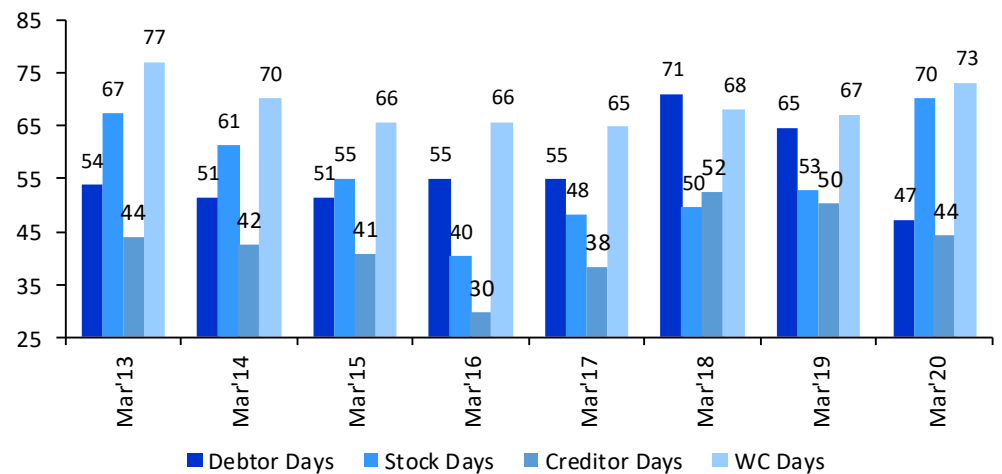
Source: Company, DART

Exhibit 7: Return Ratios (%)


Source: Company, DART

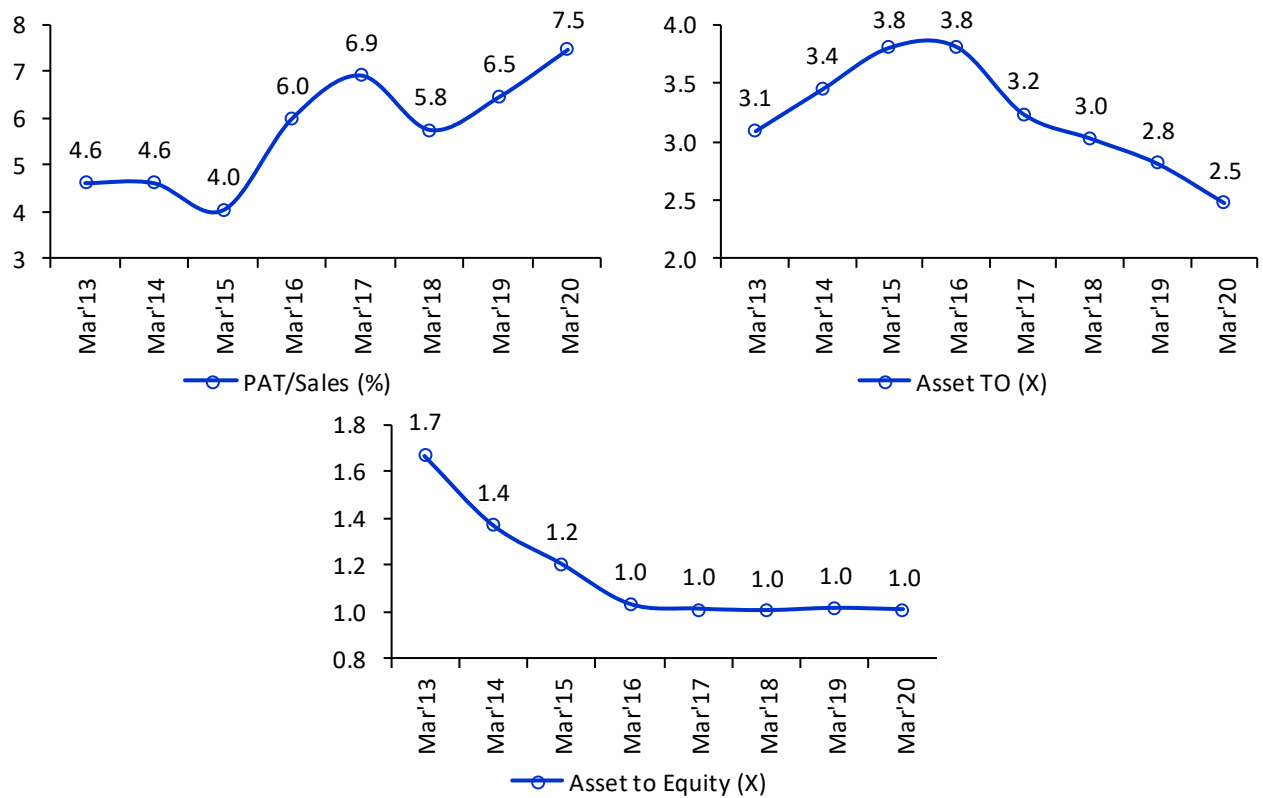
Exhibit 8: Gross profit margin (%)


Source: Company, DART

Exhibit 9: Working Capital


Source: Company, DART

Exhibit 10: DuPont Analysis



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	25,665	24,820	20,441	25,358
Total Expense	23,470	22,287	18,632	22,594
COGS	17,992	16,582	13,798	16,990
Employees Cost	2,020	2,068	2,075	2,231
Other expenses	3,458	3,637	2,760	3,373
EBIDTA	2,195	2,533	1,809	2,764
Depreciation	218	281	301	317
EBIT	1,977	2,252	1,508	2,447
Interest	13	37	37	10
Other Income	183	240	241	277
Exc. / E.O. items	0	0	0	0
EBT	2,147	2,454	1,712	2,714
Tax	491	603	411	651
RPAT	1,656	1,852	1,301	2,063
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,656	1,852	1,301	2,063

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	427	428	428	428
Minority Interest	0	0	0	0
Reserves & Surplus	8,570	9,509	10,520	11,972
Net Worth	8,997	9,938	10,949	12,400
Total Debt	100	100	100	100
Net Deferred Tax Liability	22	(22)	(22)	(22)
Total Capital Employed	9,119	10,015	11,026	12,478

Applications of Funds

Net Block	2,135	2,675	2,854	3,187
CWIP	77	669	669	669
Investments	91	91	91	91
Current Assets, Loans & Advances	11,259	10,946	11,168	13,190
Inventories	3,709	4,764	2,856	3,543
Receivables	4,543	3,218	3,618	4,489
Cash and Bank Balances	847	1,115	2,562	2,312
Loans and Advances	94	86	84	101
Other Current Assets	1,235	1,403	1,188	1,384
Less: Current Liabilities & Provisions	4,443	4,365	3,756	4,659
Payables	3,531	3,007	2,856	3,543
Other Current Liabilities	912	1,358	899	1,116
sub total				
Net Current Assets	6,816	6,581	7,413	8,531
Total Assets	9,119	10,015	11,026	12,478

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	29.9	33.2	32.5	33.0
EBIDTA Margin	8.6	10.2	8.9	10.9
EBIT Margin	7.7	9.1	7.4	9.7
Tax rate	22.9	24.6	24.0	24.0
Net Profit Margin	6.5	7.5	6.4	8.1
(B) As Percentage of Net Sales (%)				
COGS	70.1	66.8	67.5	67.0
Employee	7.9	8.3	10.2	8.8
Other	13.5	14.7	13.5	13.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	155.7	60.3	40.4	244.7
Inventory days	53	70	51	51
Debtors days	65	47	65	65
Average Cost of Debt	25.3	37.3	37.3	10.0
Payable days	50	44	51	51
Working Capital days	97	97	132	123
FA T/O	12.0	9.3	7.2	8.0
(D) Measures of Investment				
AEPS (Rs)	3.9	4.3	3.1	4.8
CEPS (Rs)	4.4	5.0	3.8	5.6
DPS (Rs)	0.8	1.0	1.4	1.4
Dividend Payout (%)	20.5	22.0	47.0	29.6
BVPS (Rs)	21.1	23.3	25.7	29.1
RoANW (%)	20.1	19.6	12.5	17.7
RoACE (%)	20.0	19.7	12.7	17.6
RoAIC (%)	25.1	26.2	17.4	26.3
(E) Valuation Ratios				
CMP (Rs)	180	180	180	180
P/E	46.3	41.4	58.9	37.2
Mcap (Rs Mn)	76,680	76,680	76,680	76,680
MCap/ Sales	3.0	3.1	3.8	3.0
EV	75,102	75,305	73,358	73,108
EV/Sales	2.9	3.0	3.6	2.9
EV/EBITDA	34.2	29.7	40.6	26.5
P/BV	8.5	7.7	7.0	6.2
Dividend Yield (%)	0.4	0.5	0.8	0.8
(F) Growth Rate (%)				
Revenue	11.0	(3.3)	(17.6)	24.1
EBITDA	17.4	15.4	(28.6)	52.8
EBIT	17.8	13.9	(33.0)	62.2
PBT	21.1	14.3	(30.2)	58.5
APAT	24.4	11.8	(29.7)	58.5
EPS	24.4	11.8	(29.7)	58.5

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	1,478	1,655	3,075	1,522
CFI	(430)	(941)	(979)	(1,150)
CFF	(252)	(445)	(649)	(622)
FCFF	1,128	243	2,595	872
Opening Cash	50	847	1,115	2,562
Closing Cash	847	1,115	2,562	2,312

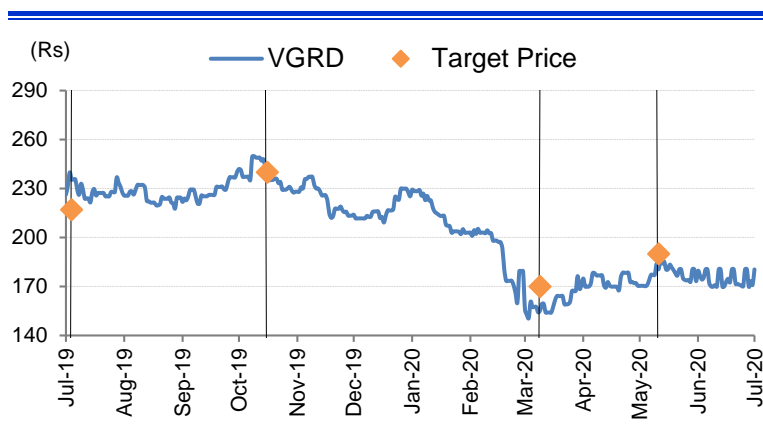
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	Reduce	217	236
Nov-19	Reduce	240	243
Mar-20	Accumulate	170	155
Jun-20	Reduce	190	180

*Price as on recommendation date

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