

V-Guard Industries

Non-south drags 2Q; miss on margin

V-Guard posted a disappointing set of numbers as the company clocked revenue/EBITDA decline of 42/87% YoY (HSIE expectation -45/-52% YoY). Non-south performance remained weak and contracted by 47% (21% dip in 4QFY20). The company is the No. 3-4 player in non-south markets, and channel partners continue to prefer market leaders on priority. It impacted V-Guard even in 4QFY20. Stabiliser was most impacted (51% dip in Electronics segment) as demand of RAC was impacted sharply by the lockdown. Electricals/Consumer Durable segments have declined by 31/44% YoY. Gross margin declined by 334bps YoY on account of unfavorable mix (low Stabilizer mix). Negative opelev contracted EBITDA margin by 794bps to 2% (historical low). Demand improved sequentially since May as the company reached 70% of last year's sales and achieved 90% in June. However, sporadic lockdowns hampered the rate of recovery in July. V-Guard has been losing market share in the past six months, particularly in the non-south market. We expect only a gradual recovery and weak FY21 revenue. We cut EPS estimate for FY21 by 3% while maintain estimates for FY22/FY23. We value V-Guard at 30x P/E on Jun-22E EPS and derive a target price of Rs 157. Maintain REDUCE.

- Revenue weak:** Revenue declined by 42% YoY (+10% in 1QFY20 and -28% in 4QFY20). Electronics/Electricals/Consumer Durables saw revenue dip by 51/31/44% YoY. The company saw a sequential improvement across markets since May, with 70% outlets being open at the end of June. Non-South/South markets saw revenues decline by 47/38% YoY and revenue contribution of the South market increased to 58.3%.
- Weak margins all-round:** Overall gross margin dipped by 334bps YoY (+216bps in 1QFY20 and +374bps in 4QFY20) vs expectation of an expansion of 144bps YoY. Employee/other expenses declined by 9/37% YoY. EBITDA margin dipped by 794bps YoY (+285bps in 1QFY20 and -215bps in 4QFY20) to 2.2%. EBITDA was down by 87% YoY at Rs 91mn vs our estimate of Rs 340mn. EBIT margins for Electronics/Electricals/Consumer Durables dipped by 1,076/197/1,443bps YoY. APAT declined by 93% YoY.
- Concall takeaways:** (1) Impact in non-South markets was higher. Demand in Karnataka and Kerala saw improvement; (2) 70% of outlets were open at the end of June. The number slipped to 55-60% during July and has now bounced back to 70%; (3) channel inventory has reduced by ~30 days; (4) CFO was Rs 2.15bn vs. Rs 1.83bn in 1QFY20 and net cash stood at Rs 3.49bn vs. 3.25bn in 1QFY20; (5) the company is focused on expanding in e-commerce and launched products exclusive to the channel.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q		YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
	FY21	FY20							
Net Sales	4,058	6,994	(42.0)	5,366	(24.4)	24,820	23,572	27,958	31,150
EBITDA	91	712	(87.3)	452	(79.9)	2,533	2,270	2,837	3,232
APAT	36	525	(93.1)	325	(88.9)	1,776	1,691	2,145	2,459
Diluted EPS (Rs)	0.08	1.23	(93.1)	0.76	(88.9)	4.15	3.95	5.01	5.74
P/E (x)						40.7	42.8	33.7	29.4
EV / EBITDA (x)						28.0	30.8	24.5	21.3
RoCE (%)						20.5	16.9	21.3	22.6

Source: Company, HSIE Research

REDUCE

CMP (as on 28 Jul 2020)	Rs 165
Target Price	Rs 157
NIFTY	11,131

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 157	Rs 157
EPS %	FY21E	FY22E
	-3%	0%

KEY STOCK DATA

Bloomberg code	VGRD IN
No. of Shares (mn)	428
MCap (Rs bn) / (\$ mn)	71/943
6m avg traded value (Rs mn)	81
52 Week high / low	Rs 260/149

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(7.4)	(26.9)	(30.0)
Relative (%)	(27.3)	(20.9)	(31.6)

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	62.73	62.73
FIs & Local MFs	13.44	13.31
FPIs	13.39	13.07
Public & Others	10.44	10.89
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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