

# V-Guard Industries

## Muted performance continues

V-Guard posted flat revenue as CD recovery failed to live up to expectations, particularly after a strong show by its peers. Southern markets continued to see challenges and posted 3% YoY decline. Non-south markets (historical growth driver) were below par and clocked 4% YoY growth. Stabilizer sustained industry led headwinds (weak RAC industry) while water heaters declined due to supply disruption. Margins remained below expectations due to commodity headwinds and adverse product mix. Hence, EBITDA (ex-ESOP write-back) grew by 6% YoY. We expect strong EBITDA growth in 2HFY21 led by favourable base and better show of high margin business. We cut our EPS estimate by 2% for FY21 while maintaining it for FY22/FY23. We value V-Guard at 30x P/E to derive a target price of Rs 161. Maintain REDUCE

- CD surprises with 7% YoY decline:** Net revenue remained flat YoY (+4% in 2QFY20 and -42% in 1QFY21), marginally better than expectation of 3% YoY decline. Electronics/Electricals segments clocked 2% YoY growth each, while CD surprised with 7% YoY decline due to supply chain disruptions (water heaters). The decline in CD is in sharp contrast to the strong performance by peers. Crompton and Havells clocked 18% YoY growth in ECD, while Polycab posted 25% YoY growth in FMEG. Rural demand was stronger than urban, although the company has witnessed revival in some urban markets such as Mumbai and Delhi. Pumps, Fans and Digital UPS performed well for the company.
- Product mix impacts margin:** GM contracted sharply by 220bps YoY (+415bps in 2QFY20 and -334bps in 1QFY21) vs expectation of -127bps YoY contraction. Employee expenses grew by 12% YoY while other expenses declined by 19% YoY, led by cost saving initiatives. As a result, adj. EBITDA margin (ex-ESOP write-back) saw expansion of 68bps YoY to 11.6% (+255bps in 2QFY20 and -794bps in 1QFY21) vs expectation of 183bps YoY expansion. EBITDA grew by 6% YoY (HSIE +12.7%). EBIT margin for the Electronics segment expanded by 94bps YoY while Electricals/CD segments saw contraction of 72/224bps YoY. PBT declined by 7% YoY while APAT declined by 3% YoY to Rs 481mn (HSIE Rs 589mn).
- Concall takeaways:** (1) The company expects Non-South growth to be 10% ahead of South for 2HFY21, which will continue to increase Non-South revenue mix; (2) E-comm grew by 40% YoY; (3) new range of premium fans saw strong traction with 3-5 months of order backlog; (4) channel inventory remained lower than normal by 10-15 days; (5) labour availability is back to 80-90% in most areas now.

### Quarterly/Annual Financial summary

YE Mar (Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY22E
Net Sales	6,167	6,193	(0.4)	4,058	52	24,820	23,928	28,383	31,625
EBITDA	739	776	(4.7)	91	716	2,533	2,291	2,899	3,253
APAT	481	497	(3.4)	36	1,227	1,776	1,606	2,143	2,444
Diluted EPS (Rs)	1.12	1.16	(3.7)	0.08	1,225	4.15	3.75	5.00	5.71
P/E (x)						40.5	44.8	33.6	29.4
EV / EBITDA (x)						27.8	30.4	23.7	21.0
RoCE (%)						20.5	16.9	22.2	23.7

Source: Company, HSIE Research

## REDUCE

CMP (as on 29 Oct 2020)	Rs 168
Target Price	Rs 161
NIFTY	11,671

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 161	Rs 161
	FY21E	FY22E
EPS %	-2%	0%

### KEY STOCK DATA

Bloomberg code	VGRD IN
No. of Shares (mn)	429
MCap (Rs bn) / (\$ mn)	72/971
6m avg traded value (Rs mn)	110
52 Week high / low	Rs 260/149

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.3	(5.5)	(28.4)
Relative (%)	(2.1)	(27.0)	(28.2)

### SHAREHOLDING PATTERN (%)

	June-20	Sep-20
Promoters	62.73	62.64
FIs & Local MFs	13.31	13.14
FPIs	13.07	12.51
Public & Others	10.89	11.71
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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