

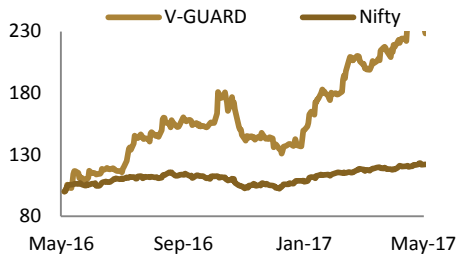
Market statistics

Current stock price (₹)	194
Shares O/S (cr.)	42.5
Mcap (₹ cr)	8,238
52W H/L (₹)	221/84
6m avg. volume	942,195
Bloomberg	VGRD IN

Shareholding pattern

Promoters	65.47
Domestic Institution	10.02
Foreign Institution	12.52
Non-institution	11.99
of which more than 1%	
<i>Nalanda India Equity Fund Ltd</i>	4.30
<i>Nalanda India Fund Ltd</i>	2.60

V-Guard vs Nifty



Capital efficiency & valuations

Particulars	FY17P	FY18E	FY19E
ROE (%)	23.8	24.9	24.5
ROCE (%)	29.8	29.7	28.9
P/B (x)	11.5	10.5	8.5
P/E (x)	48.4	42.2	34.9
EPS (₹)	3.6	4.6	5.6
EV/OCF (x)	64.4	51.0	42.9

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V-Guard reported robust sales growth of 21.4% YoY to ₹6,233mn vs. our expectation of +17.4%YoY. This performance is driven by 17% volume growth coupled with price growth and good onset of a strong summer season. Electronics segment (31% of total sales) increased by 25.3% while Electrical segment (65% of total sales) reported 20.2% growth. Strong growth in stabilizer, Inverter, Cables, pumps & fans, solar led this impressive performance. In Electronics segment – *Stabilizer & UPS registered 25.0% & 29.4% YoY growth* while in Electrical Segment – *Cables, Fans, Pumps & Water heaters displayed 21.4%, 14.3%, 23.5% & 10.4%, respectively.*

Gross Margin contracted by 193bps to 28.8% due to rising input prices. Employee expenses & other expenses grew strongly by 41.2% YoY & 21.5%YoY. Hence, EBITDA declined by 6.5% to ₹ 593mn while EBITDA margin contracted by 284bps to 9.5%YoY. Electronics EBIT Margin contracted by 309bps to 11.7% due to increase in lead prices (forms 65% cost of stabilizers) while Electrical segment EBIT Margin contracted by 265bp to 7.7%.

ETR stood at 28% vs 31% during the quarter. However, PAT was flat at -0.3% ₹ 419mn.

In FY17, Sales, EBITDA & PAT grew by 15.5%, 20.8% & 37% YoY.

Strong growth across all segments: Electronics segment displayed strong growth of 25.3% led by 25.0% & 29.4% growth Stabilizers & Inverter segment. Cables & Wires (31% of sales) witnessed robust growth of 27% led by volume growth of 8% & price hike. Company said that they will require further 9% increase in cables to absorb higher GST rates. South: Non South Sales ratio is currently at 65:35. South markets have shown impressive growth of 16.7% considering highly penetrated & mature market for V-Guard. This performance is due to re-bounce in sales of inverter which was earlier facing pressure. Non-South market has grown robust by 30.5%YoY in Q4FY17. We expect V-Guard to continue double digit growth momentum in ensuing qtrs as well supported by new launches & diversified portfolio to combat seasonality issues

Con Call Highlights: 1) Management stated effective tax rate for Cables & Wires was at 14% which has gone up to 28% under GST. 2) Reached 30K retailers in FY17 and aims to increase coverage every year by 15% particularly from Non South region. 3) V-Guard’s water heater has occupied 1st position both in volume and value terms and company continues to launch innovative products in this category 4) Company aims to garner ₹1,200mn in FY18 vs ₹430mn in FY16 & focuses on improving Switchgear EBITDA (currently at 8%) after taking control on manufacturing of the acquired company 5) Company expects 15% volume growth along with maintaining EBITDA margins at current levels 6) GST implementation will create some disruption in the system. 7) Focus to expand presence of Switchgears & Kitchen Appliances in other states 8) ETR would be 26% for FY18.

Margins impacted due higher input costs & one-time costs in employee costs: Higher input cost resulted into 193bps expansion in gross margin. Employee costs grew by 41.2% due to one-time gratuity, leave encashment & Esop expenses of ₹35mn while other expenses grew by 21.5% due renovation cost of ₹15mn of one plant. Hence, total one-time costs were ₹50mn in Q4FY17. Hence, EBITDA Margin contracted sharply 284bps to 9.5%. We expect 10%.4-10.6% EBITDA margin for FY18-19.

Outlook & Valuation: V-Guard has shown significant sales & profit growth in the last several years on account of consistent expansion of product portfolio & distribution reach. V-Guard has registered 24%, 27% & 32% growth in Sales, EBITDA & PAT during FY04-17, respectively. V-Guard was earlier south dominant player and has gradually become Pan-India player – *South & Non-South mix is 65:35.* V-Guard’s business has high seasonality in its business; therefore, the company has launched several counter seasonality products to lower down its impact.

We expect Sales, EBITDA & PAT CAGR of 16.2%, 19.4% & 24.8% between FY17-FY19E, respectively. The stock trades at a P/E of 42.2x & 34.9x of FY18 & FY19 estimated EPS. **We maintain our BUY rating.**



Quarter Performance

Particulars (₹ mn)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Total Income	4,416	4,993	4,334	4,163	5,133	5,727	4,951	4,596	6,233
YoY Gr (%)	4.5	4.5	0.5	5.3	16.2	14.7	14.2	10.4	21.4
Gross Profit	1,138	1,392	1,244	1,287	1,576	1,770	1,619	1,544	1,794
Gross Margin (%)	25.8	27.9	28.7	30.9	30.7	30.9	32.7	33.6	28.8
YoY Change	157bps	241bps	65bps	452bps	493bps	301bps	399bps	268bps	-193bps
EBITDA	353	435	365	346	635	638	533	386	594
YoY Gr (%)	(0.5)	7.5	2.3	59.8	80.0	46.7	46.1	11.5	(6.5)
EBITDA Margin (%)	8.0	8.7	8.4	8.3	12.4	11.1	10.8	8.4	9.5
YoY Change	-40bps	24bps	15bps	284bps	438bps	243bps	235bps	8bps	-284bps
PAT	201	252	231	215	420	428	392	280	419
YoY Gr (%)	(2.0)	13.2	20.3	132.8	109.2	69.9	70.0	30.1	(0.3)
PAT Margin (%)	4.6	5.1	5.3	5.2	8.1	7.5	7.9	6.1	6.6

Exhibit 1: Regional Sales Growth (%)

Particulars	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
South	(2.5)	(1.9)	2.0	7.4	18.0	15.6	13.3	5.2	16.7
Non-South	18.3	14.4	(5.6)	-	12.8	13.6	15.7	23.2	30.5

Source: Company, Trust

Exhibit 2: Regional Sales Mix (%)

Particulars	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
South	67	62	69	70	68	62	69	67	65
Non-South	33	38	31	30	32	38	31	33	35

Source: Company, Trust

Exhibit 3: Quarterly Sales Performance

Particulars	Revenue (₹ mn)					Revenue Growth (%)					Revenue Mix (%)				
	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17
Electronics	1,545	2,204	1,366	1,184	1,955	18.1	22.9	13.8	7.7	26.5	30.1	38.5	27.6	25.8	31.4
Stabilizers	1,001	1,455	821	834	1,251	25.9	21.6	14.7	9.3	25.0	19.5	25.4	16.6	18.2	20.1
UPS(Standalone+ Digital)	544	749	545	350	704	6.0	25.5	12.6	4.2	29.4	10.6	13.1	11.0	7.6	11.3
Electricals	3,411	3,335	3,292	3,237	4,061	15.5	9.2	12.5	11.4	19.1	66.5	58.2	66.5	70.5	65.2
Housing wire+ LT Cable	1,546	1,538	1,540	1,381	1,877	1.5	(0.5)	3.3	5.8	21.4	30.1	26.9	31.1	30.1	30.1
Electric Fans	720	600	336	301	823	45.7	19.8	17.9	15.3	14.3	14.0	10.5	6.8	6.6	13.2
Pumps & Motors	741	679	497	595	915	19.7	32.4	20.0	37.7	23.5	14.4	11.9	10.0	13.0	14.7
Heater (Electric+ Solar)	404	518	919	960	446	27.4	4.4	24.9	5.8	10.4	7.9	9.0	18.6	20.9	7.2
Others	176	188	294	171	217	14.3	30.6	40.0	7.5	23.3	3.4	3.3	5.9	3.7	3.5
Total	5,132	5,727	4,952	4,592	6,233	16.2	14.7	14.2	10.3	21.5	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust



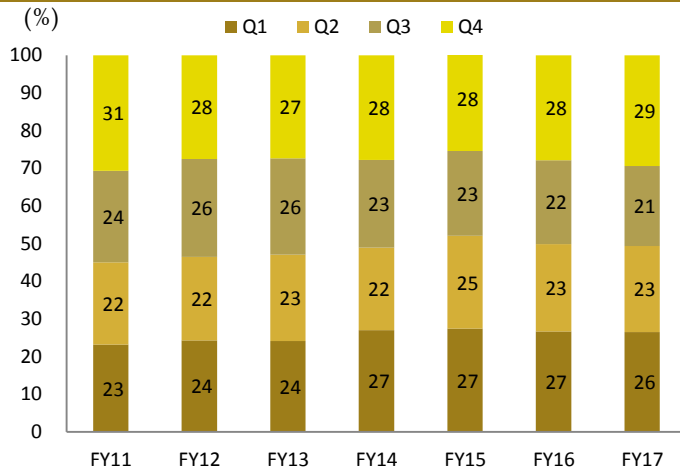
Exhibit 4: Yearly Sales Performance

Particulars	Revenue (` mn)				Revenue Gr. (%)				Revenue Mix (%)			
	FY14	FY15	FY16	FY17	FY14	FY15	FY16	FY17	FY14	FY15	FY16	FY17
Electronics	4,504	5,489	5,638	6,709	(2.0)	21.9	2.7	19.0	29.7	31.4	30.3	31.2
Stabilizers	2,664	3,268	3,677	4,361	12.0	22.7	12.5	18.6	17.6	18.7	19.7	20.3
UPS(Standalone+ Digital)	1,840	2,221	1,961	2,348	(17.0)	20.7	(11.7)	19.7	12.1	12.7	10.5	10.9
Electricals	10,673	11,970	12,986	14,795	18.5	12.2	8.5	13.9	70.3	68.6	69.7	68.8
Housing wire+ LT Cable	5,466	5,836	5,887	6,336	22.5	6.8	0.9	7.6	36.0	33.4	31.6	29.5
Electric Fans	1,024	1,375	1,767	2,060	28.5	34.3	28.5	16.6	6.7	7.9	9.5	9.6
Pumps & Motors	2,022	1,890	2,100	2,686	(1.5)	(6.5)	11.1	27.9	13.3	10.8	11.3	12.5
Heater(Electric+ Solar)	1,751	2,280	2,543	2,843	22.6	30.2	11.5	11.8	11.5	13.1	13.7	13.2
Others	410	589	689	870	53.0	43.7	17.0	26.3	2.7	3.4	3.7	4.0
Total	15,177	17,459	18,624	21,504	11.6	15.0	6.7	15.5	100.0	100.0	100.0	100.0

Source: Company, Trust

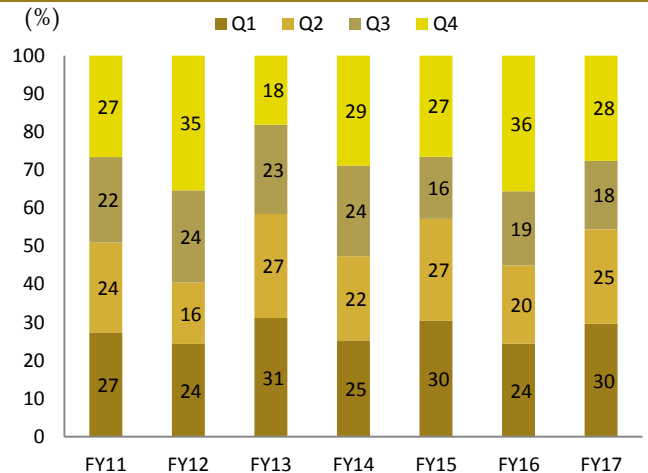
Portfolio to counter seasonality

Exhibit 5: Quarterly sales mix



Source: Company, Trust

Exhibit 6: Quarterly EBITDA mix



Source: Company, Trust



Financials

P&L Statement

Y/E Mar (₹mn)	FY15	FY16	FY17P	FY18E	FY19E
Net Revenues	17,459	18,623	21,506	24,931	29,060
% Growth	15.0	6.7	15.5	15.9	16.6
Raw Material	12,901	13,123	14,780	17,327	20,196
Staff	1,097	1,109	1,375	1,400	1,644
Selling and Distribution Expenses	1,663	1,959	2,466	2,701	3,136
Other Expenses	468	651	735	909	1,016
Total Expenditures	16,129	16,843	19,356	22,337	25,993
EBITDA	1,330	1,780	2,150	2,594	3,067
% Growth	8.5	33.8	20.8	20.6	18.2
EBITDA Margins (%)	7.6	9.6	10.0	10.4	10.6
Other Income	45	72	130	235	328
Interest	206	89	12	11	8
Depreciation	154	154	162	169	181
Profit Before Tax	1,015	1,610	2,106	2,649	3,205
Provision for tax	307	493	584	689	833
Effective tax rate (%)	30.3	30.6	27.7	26.0	26.0
Reported PAT	707	1,117	1,523	1,961	2,372
% Growth	3.2	57.9	36.3	28.8	21.0
Adjusted Net Profit	707	1,117	1,518	1,961	2,372
% Growth	3.2	57.9	35.9	29.1	21.0

Balance Sheet

₹ mn (Y/E Mar)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	300	301	425	425	425
Reserves & surplus	3,478	4,407	5,946	7,448	9,265
Shareholders' funds	3,777	4,708	6,371	7,873	9,689
Total Debt	580	71	25	19	14
Others	273	250	271	271	271
Capital Employed	4,630	5,029	6,667	8,163	9,975
Net Fixed Assets	1,636	1,611	1,788	1,864	1,883
Cash & Cash Eq.	22	76	157	731	1,562
Net Current Assets (Ex-cash)	2,784	3,142	4,395	5,095	5,941
Others	188	395	1,216	1,512	1,777
Total Assets	4,630	5,029	6,667	8,163	9,975

**Cash Flow**

₹ mn (Y/E Mar)	FY15	FY16	FY17P	FY18E	FY19E
Pre-tax profit	1,015	1,610	2,106	2,649	3,205
Depreciation	154	154	162	169	181
Total Tax Paid	(305)	(511)	(584)	(689)	(833)
Chg in working capital	(210)	(517)	(573)	(550)	(696)
Other operating activities	234	89	12	11	8
Cash flow from oper (a)	887	825	1,124	1,590	1,865
Capital Expenditure	(122)	(108)	(338)	(245)	(200)
Chg in investments	-	(207)	(821)	(296)	(265)
Other investing activities	(47)	-	-	-	-
Cash flow from inv.(b)	(169)	(315)	(1,159)	(541)	(465)
Free cash flow	765	717	786	1,345	1,665
Equity raised/(repaid)	37	-	-	-	-
Debt raised/(repaid)	(406)	-	-	-	-
Interest paid	(197)	(89)	(12)	(11)	(8)
Dividend (incl. Tax)	(157)	(246)	(356)	(459)	(555)
Other financing activities	-	(178)	(44)	(5)	(5)
Cash flow from fin. (c)	(724)	(514)	(413)	(475)	(568)
Net chg in cash (a+b+c)	(5)	(4)	(448)	574	831

Key Ratios

Y/E Mar	FY15	FY16	FY17P	FY18E	FY19E
Raw Material Cost/Sales (%)	73.9	70.5	68.7	69.5	69.5
Manpower Cost/Sales (%)	6.3	6.0	6.4	5.6	5.7
A&P Cost/Sales (%)	4.0	4.3	5.0	4.4	4.4
Revenue Growth (%)	15.0	6.7	15.5	15.9	16.6
EBITDA Margins (%)	7.6	9.6	10.0	10.4	10.6
Net Income Margins (%)	4.1	6.0	7.1	7.9	8.2
ROCE (%)	25.4	32.3	29.8	29.7	28.9
ROE (%)	18.7	23.7	23.8	24.9	24.5

Valuation Parameters

Y/E Mar	FY15	FY16	FY17P	FY18E	FY19E
EPS (₹.)	1.7	2.6	3.6	4.6	5.6
P/E (x)	57.0	34.2	48.4	42.2	34.9
BV (₹)	126.0	156.5	15.0	18.5	22.8
P/BV (x)	0.8	0.6	11.5	10.5	8.5
EV/EBITDA (x)	30.7	21.4	33.7	31.3	26.1
Fixed assets turnover ratio (x)	10.8	11.6	12.8	14.2	16.3
Net Debt/Equity (x)	0.1	(0.0)	(0.0)	(0.1)	(0.2)
EV/Sales (x)	2.3	2.0	3.4	3.3	2.8



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Recommendation **Expected absolute returns (%) over 12 months**

Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

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