

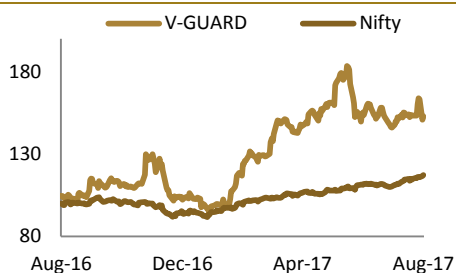
Market statistics

Current stock price (₹)	181
Shares O/S (cr.)	42.5
Mcap (₹ cr)	7,678
52W H/L (₹)	221/109
6m avg. volume	1,123,631
Bloomberg	VGRD in

Shareholding pattern

Promoters	65.17
Domestic Institution	10.27
Foreign Institution	11.51
Non-institution	13.05
of which more than 1%	
Nalanda India Equity Fund Ltd	4.30
Nalanda India Fund Ltd	2.60

V-Guard vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
ROE (%)	23.8	23.7	23.5
ROCE (%)	29.8	28.1	27.6
P/B (x)	11.5	9.7	8.0
P/E (x)	48.4	40.9	33.9
EPS (₹)	3.6	4.4	5.3
EV/OCF (x)	60.9	48.5	44.5

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V-Guard reported weak net sales growth of 0.8% YoY to ₹5,595mn vs. our expectation of +14%YoY. Sales Volumes got impacted due to significant de-stocking by the trade channel & moderate summer. Electronics segment (40% of total sales) including Stabilizers & Inverters increased by 4.3% YOY. Electrical segment (42% of total sales) reported 3.8% growth. Cables, Pumps & Switchgear within Electrical segment grew by 3.4%, 4.7% & 3.2% YoY. Consumer Durables Segment (19% of total sales) declined by 8.5% YoY. Fans, Water heaters & Kitchen Appliances within CD segment contracted by 6%, 10.6% & 13.1% YoY. Management maintains guidance of 15% Sales CAGR for coming years.

Gross Margin contracted by 190bps to 27.5% due to higher input prices & delayed price increases. Employee expenses & other expenses grew strongly by 39.4% YoY & 23%YoY. Hence, EBITDA declined by 49.2% to ₹ 327mn while EBITDA margin contracted by 574bps to 5.8%YoY. Electronics EBIT Margin contracted by 469bps to 10.6% due to increase in lead prices (forms 65% cost of stabilizers). Electrical segment EBIT Margin contracted by 563bps to 2.8% due to higher copper prices in cables & delayed price hike. Consumer durable EBIT margin stood at -0.6%.

ETR stood at 25% vs 32% during the quarter. PAT declined by 46% to ₹ 232mn.

De-stocking due to GST implementation impacts Sales: V-Guard showed muted sales growth of 0.8% due to disruption in trade channel against the backdrop of GST implementation. Electronics segment displayed growth of 4.3% led by 15% growth Inverter segment while Stabilizers de-grew by 1.5%. Management stated that currently price difference of 30% between unorganized and organized players would narrow down to 10-15% post GST, however competitive intensity has increased in the segment led by organized players. Electricals segment showed 3.8% growth due to weak growth in Cables & Wires(28% of Sales) to 3.4%YoY. This performance due to inventory held back from Kashipur factory (provide 70% of sales) due to GST transition. With price hike of 7-8% to be implemented from July, we expect Cables & Wires would show better growth in coming qtrs. South: Non South Sales ratio is currently at 60:40. South markets declined by 2.6% while Non-south market showed healthy growth of 8% in Q1FY18. 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) Re-stocking is happening in July across all the categories 2)ESOP expense would be more for coming qtrs. while it would be insignificant from next year. 3) Price hike taken to the tune of 7-8% in cables & wires to combat higher copper prices. 4) Management aims to restore EBITDA margins to the levels of 9% in coming qtrs. 5) Focus to expand presence of Switchgears & Kitchen Appliances in other states 6) Cables & Wires Kashipur factory GST issue is resolved and coming quarters, supply from this would regain in coming qtr.

Margins impacted due higher input costs & one-time costs in employee costs: Higher input cost resulted into 109bps contraction in gross margin to 27.5%. Employee costs grew by 39.4% due to additional costs of Rs30mn from changing the method of ESOP accounting based on INDAS adoption. Other Expenses grew by 23% YoY supported by additional costs of Rs30mn from the recently launched stabilizer and water heater units in Sikkim and Rs10mn is one-off expense linked to the launch. Hence, EBITDA Margin contracted sharply 574bps to 5.8%. We expect 10%.4-10.7% 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 13%, 16.6% & 22.3% between FY17-FY19E, respectively. The stock trades at a P/E of 40.9x & 33.9x of FY18 & FY19 estimated EPS. **We maintain our BUY rating.**



Quarter Performance

Particulars (₹ mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Total Income	4,993	4,334	4,163	5,133	5,552	4,951	4,596	6,233	5,595
YoY Gr (%)	4.5	0.5	5.3	16.2	11.2	14.2	10.4	21.4	0.8
Gross Profit	1,392	1,244	1,287	1,576	1,586	1,619	1,544	1,794	1,537
Gross Margin (%)	27.9	28.7	30.9	30.7	28.6	32.7	33.6	28.8	27.5
YoY Change	241bps	65bps	452bps	493bps	68bps	399bps	268bps	-193bps	-109bps
EBITDA	435	365	346	635	643	533	386	594	326
YoY Gr (%)	7.5	2.3	59.8	80.0	47.7	46.1	11.5	(6.5)	(49.2)
EBITDA Margin (%)	8.7	8.4	8.3	12.4	11.6	10.8	8.4	9.5	5.8
YoY Change	24bps	15bps	284bps	438bps	286bps	235bps	8bps	-284bps	-574bps
PAT	252	231	215	420	426	392	280	419	229
YoY Gr (%)	13.2	20.3	132.8	109.2	69.0	70.0	30.1	(0.3)	(46.2)
PAT Margin (%)	5.1	5.3	5.2	8.1	7.6	7.9	6.1	6.6	4.0

Exhibit 1: Regional Sales Growth (%)

Particulars	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
South	(1.9)	2.0	7.4	18.0	13.3	13.3	5.2	16.7	(2.6)
Non-South	14.4	(5.6)	-	12.8	11.0	15.7	23.2	30.5	8.0

Source: Company, Trust

Exhibit 2: Regional Sales Mix (%)

Particulars	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
South	62	69	70	68	62	69	67	65	60
Non-South	38	31	30	32	38	31	33	35	40

Source: Company, Trust

Exhibit 3: Quarterly Sales Performance

Particulars	Revenue (₹ mn)					Revenue Growth (%)					Revenue Mix (%)				
	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18
Electronics	2,161	1,366	1,184	1,955	2,255	20.5	13.8	7.7	26.5	4.3	38.5	27.6	25.8	31.4	39.6
Stabilizers	1,434	821	834	1,251	1,413	19.8	14.7	9.3	25.0	(1.5)	25.6	16.6	18.2	20.1	24.8
UPS(Standalone+ Digital)	727	545	350	704	842	21.8	12.6	4.2	29.4	15.8	13.0	11.0	7.6	11.3	14.8
Electricals	2,280	2,138	2,067	2,883	2,366	7.1	7.9	13.5	20.9	3.8	40.6	43.2	45.0	46.3	41.6
Housing wire+ LT Cable	1,527	1,540	1,381	1,877	1,579	(1.2)	3.3	5.8	21.4	3.4	27.2	31.1	30.1	30.1	27.7
Motor Pumps	659	497	595	915	690	28.5	20.0	37.7	23.5	4.7	11.7	10.0	13.0	14.7	12.1
Switchgears	94	101	91	91	97	32.4	31.2	8.3	(7.1)	3.2	1.7	2.0	2.0	1.5	1.7
Consumer Durables	1,169	1,448	1,341	1,395	1,070	9.3	25.5	7.9	16.1	(8.5)	20.8	29.2	29.2	22.4	18.8
Pumps & Motors	586	336	301	823	551	17.0	17.9	15.3	14.3	(6.0)	10.4	6.8	6.6	13.2	9.7
Heater (Electric+ Solar)	499	919	960	446	446	0.6	24.9	5.8	10.4	(10.6)	8.9	18.6	20.9	7.2	7.8
Others	84	193	80	126	73	15.1	45.1	6.7	61.5	(13.1)	1.5	3.9	1.7	2.0	1.3
Total	5,610	4,952	4,592	6,233	5,691	12.4	14.2	10.3	21.5	1.4	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust



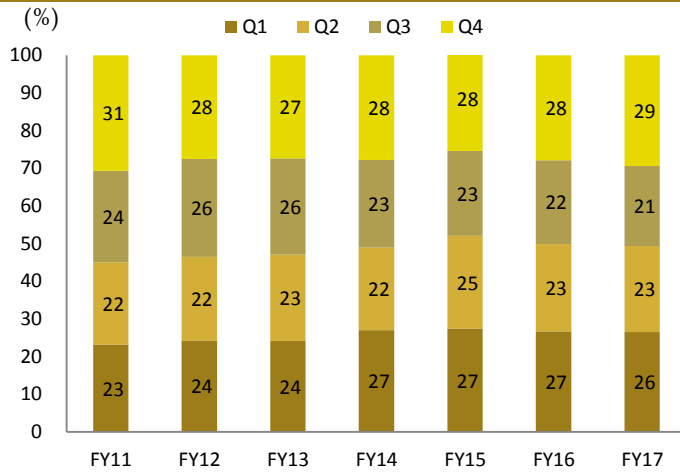
Exhibit 4: Yearly Sales Performance

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

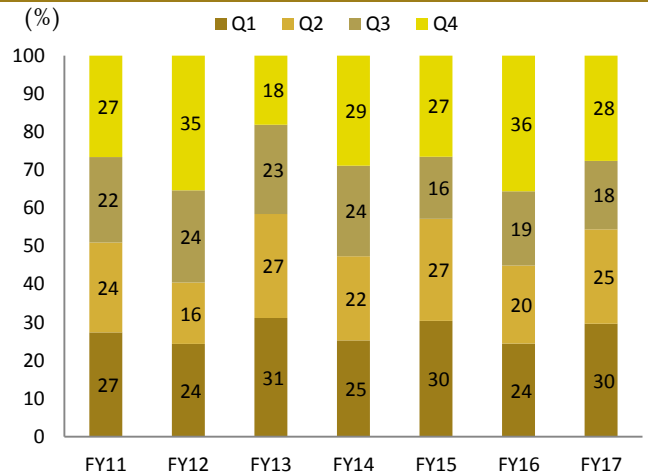
Portfolio to counter seasonality

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	FY17	FY18E	FY19E
Net Revenues	17,459	18,623	21,506	23,840	27,453
% Growth	15.0	6.7	15.5	10.9	15.2
Raw Material	12,901	13,123	14,780	16,569	19,080
Staff	1,097	1,109	1,375	1,400	1,644
Selling and Distribution Expenses	1,663	1,959	2,466	2,594	2,979
Other Expenses	468	651	735	803	826
Total Expenditures	16,129	16,843	19,356	21,366	24,529
EBITDA	1,330	1,780	2,150	2,474	2,925
% Growth	8.5	33.8	20.8	15.1	18.2
EBITDA Margins (%)	7.6	9.6	10.0	10.4	10.7
Other Income	45	72	135	235	328
Interest	206	89	21	4	3
Depreciation	154	154	162	169	181
Profit Before Tax	1,015	1,610	2,102	2,537	3,068
Provision for tax	307	493	584	654	798
Effective tax rate (%)	30.3	30.6	27.8	25.8	26.0
Reported PAT	707	1,117	1,518	1,883	2,271
% Growth	3.2	57.9	35.9	24.1	20.6
Adjusted Net Profit	707	1,117	1,518	1,878	2,271
% Growth	3.2	57.9	35.9	23.7	20.9

Balance Sheet

₹ mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	300	301	425	425	425
Reserves & surplus	3,478	4,407	5,946	7,494	9,233
Shareholders' funds	3,777	4,708	6,371	7,919	9,658
Total Debt	580	71	25	19	14
Others	273	250	271	271	271
Capital Employed	4,630	5,029	6,667	8,209	9,943
Net Fixed Assets	1,636	1,611	1,788	2,464	2,633
Cash & Cash Eq.	22	76	157	231	611
Net Current Assets (Ex-cash)	2,784	3,142	4,395	5,041	6,010
Others	188	395	1,216	1,512	1,927
Total Assets	4,630	5,029	6,667	8,209	9,943

**Cash Flow**

₹ mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	1,015	1,610	2,102	2,537	3,068
Depreciation	154	154	162	169	181
Total Tax Paid	(305)	(498)	(656)	(654)	(798)
Chg in working capital	(210)	(116)	(501)	(497)	(769)
Other operating activities	234	162	81	4	3
Cash flow from oper (a)	887	1,311	1,189	1,560	1,685
Capital Expenditure	(122)	(140)	(422)	(845)	(350)
Chg in investments	-	(194)	(686)	(296)	(415)
Other investing activities	(47)	17	54	-	-
Cash flow from inv.(b)	(169)	(315)	(1,053)	(1,141)	(765)
Free cash flow	765	1,171	767	715	1,335
Equity raised/(repaid)	37	31	92	-	-
Debt raised/(repaid)	(406)	(574)	(47)	-	-
Interest paid	(197)	(73)	(10)	(4)	(3)
Dividend (incl. Tax)	(157)	(325)	(91)	(331)	(531)
Other financing activities	-	-	-	(5)	(5)
Cash flow from fin. (c)	(724)	(941)	(55)	(339)	(539)
Net chg in cash (a+b+c)	(5)	54	81	79	381

Key Ratios

Y/E Mar	FY15	FY16	FY17	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	5.9	6.0
A&P Cost/Sales (%)	4.0	4.3	5.0	4.4	4.4
Revenue Growth (%)	15.0	6.7	15.5	10.9	15.2
EBITDA Margins (%)	7.6	9.6	10.0	10.4	10.7
Net Income Margins (%)	4.1	6.0	7.1	7.9	8.3
ROCE (%)	25.4	32.3	29.8	28.1	27.6
ROE (%)	18.7	23.7	23.8	23.7	23.5

Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹.)	1.7	2.6	3.6	4.4	5.3
P/E (x)	57.0	34.2	48.4	40.9	33.9
BV (₹)	126.0	156.5	15.0	18.6	22.7
P/BV (x)	0.8	0.6	11.5	9.7	8.0
EV/EBITDA (x)	30.7	21.4	33.7	30.6	25.7
Fixed assets turnover ratio (x)	10.8	11.6	12.8	10.1	11.1
Net Debt/Equity (x)	0.1	(0.0)	(0.0)	(0.0)	(0.1)
EV/Sales (x)	2.3	2.0	3.4	3.2	2.7



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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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