

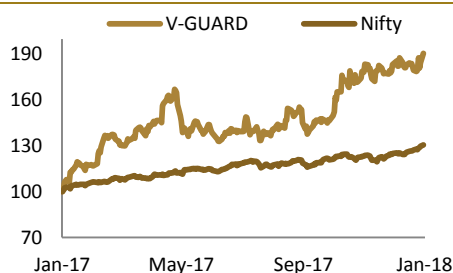
## Market statistics

Current stock price (₹)	239
Shares O/S (cr.)	42.5
Mcap (₹ cr)	10,160
52W H/L (₹)	251/126
6m avg. volume	1,522,054
Bloomberg	VGRD in

## Shareholding pattern

Promoters	64.27
Domestic Institution	12.04
Foreign Institution	11.84
Non-institution	11.85
of which more than 1%	
Nalanda India Equity Fund Ltd	4.30
Nalanda India Fund Ltd	4.05

## V-Guard vs Nifty



## Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
ROE (%)	23.1	21.4	23.7
ROCE (%)	29.2	25.9	29.3
P/B (x)	11.5	11.3	10.7
P/E (x)	49.9	52.5	45.0
EPS (₹)	3.5	3.9	5.3
EV/OCF (x)	60.9	61.6	60.0

Associate

Ritu Chaudhary

+91-22 4224 5183

ritu.chaudhary@trustgroup.in

V-Guard reported strong net sales growth of 17.1% YoY to ₹5,235mn vs. our expectation of +15%YoY. This performance is led by broad based growth across all categories led by digital UPS, fans, KEA, wires & Switchgears. Adjusting to taxes on like to like basis, sales has grown by 23%YoY

Electronics segment (25% of total sales) including Stabilizers & Inverters showed growth by 9.8% YOY. Electrical segment (47% of total sales) reported strong 20.7% growth. Housing Wires, Pumps & Switchgear within Electrical segment moved by 24.5%, 7.9% & 47.1% YoY. Consumer Durables Segment (28% of total sales) showed strong growth of 17.9% YoY. Fans, Water heaters & Kitchen Appliances within CD segment increased by 37.2%, 5.4% & 54.4% YoY.

Gross Margin expanded by 168bps to 32.4% due to better realization in fans, switchgears & wires. Employee expenses & other expenses grew by 18.9%(+1bps YoY) & 22%(+41bps YoY). Hence, EBITDA increased by 37% to ₹494mn while EBITDA margin expanded by 125bps to 9.4%YoY. Electronics EBIT Margin expanded by 181bps to 11.1% while Electrical segment EBIT Margin increased by 312bps to 10.6% due to price hike in wires. Consumer durable EBIT margin contracted by 230bps to 4.3%. PAT jumped by 42.8% YoY to ₹ 354mn.

**Strong growth of 17.1% across categories:** V-Guard showed 17.1% growth in Q3FY18 led by broad based growth across segments. **In Electronics segment**, Invertors showed robust growth of 32% YoY while Stabilizers growth was muted at 0.1%. **In Electrical Segment, wires (32% of sales)** showed strong 24.5% growth. Like to like growth in cables business (excluding LT from Q3FY17) has shown 31% value growth led by 23% volume growth. Switchgears showed robust growth of 47.1%YoY. Company extended this segment by launching modular switches in Kerala during the quarter. **In Consumer durable segment, water heaters & Fans** has shown 8.4% & 37.2% growth respectively. **KEA category in this segment** has shown handsome growth of 54%YoY. Management stated that products in KEA are well received and aims to garner Rs 1,000mn revenue from KEA category. **South: Non South Sales** ratio is currently at 65:35. South markets expanded by 13.4% while Non-south market showed strong growth of 24.8% in Q3FY18. 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) Launched rice cookers in Telangana and AP markets in KEA category 2) Planned brand rejuvenation exercise which includes the rolling out of a new brand identity in Q4 to reflect the company's transformation into a leading multi-product, pan-India brand in the Consumer Electricals space.3) Housing wires demand picked up in Q3 & expects 15% volume growth in Q4FY18. 4) Water heaters showed 20% volume growth while value growth is 14% on like to like basis 5) The Company is also looking to use online platforms like salesforce.com for more effective sales and distribution 6) Company will be extending KEA & switchgears in Non-South in coming qtrs.

**Strong EBITDA growth of 37%:** GM expanded to the tune of 168bps to 32.2% YoY due to price hike taken in cables & better realization in fans & switchgears. Employee expenses & other expenses grew by 18.9%(+1bps YoY) & 22%(+41bps YoY). Hence, EBITDA increased by 37% to ₹494mn. We expect 9.7% -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 17.8%, 21.7% & 23.5% between FY17-FY19E, respectively. The stock trades at a P/E of 52.5& 45x of FY18 & FY19 estimated EPS. **We maintain our BUY rating.**



## Quarter Performance

Particulars (₹ mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
<b>Net Sales</b>	<b>4,142</b>	<b>5,175</b>	<b>5,609</b>	<b>4,857</b>	<b>4,472</b>	<b>6,331</b>	<b>5,691</b>	<b>5,599</b>	<b>5,235</b>
YoY Gr (%)	6.2	17.7	13.4	12.7	8.0	22.3	1.5	15.3	17.1
Other Operating income	21	-	-	-	-	-	-	-	-
Excise Duty	-	42	57	69	61	99	95	-	-
<b>Total Income</b>	<b>4,163</b>	<b>5,133</b>	<b>5,552</b>	<b>4,788</b>	<b>4,411</b>	<b>6,233</b>	<b>5,595</b>	<b>5,599</b>	<b>5,235</b>
YoY Gr (%)	5.3	16.2	11.2	10.5	6.0	21.4	0.8	16.9	18.7
<b>Gross Profit</b>	<b>1,287</b>	<b>1,576</b>	<b>1,586</b>	<b>1,452</b>	<b>1,357</b>	<b>1,794</b>	<b>1,537</b>	<b>1,802</b>	<b>1,698</b>
Gross Margin (%)	30.9	30.7	28.6	30.3	30.8	28.8	27.5	32.2	32.4
YoY Change	452bps	493bps	68bps	162bps	-15bps	-193bps	-109bps	185bps	168bps
<b>EBITDA</b>	<b>346</b>	<b>635</b>	<b>643</b>	<b>514</b>	<b>361</b>	<b>594</b>	<b>326</b>	<b>670</b>	<b>494</b>
YoY Gr (%)	59.8	80.0	47.7	40.9	4.3	(6.5)	(49.2)	30.3	36.9
EBITDA Margin (%)	8.3	12.4	11.6	10.7	8.2	9.5	5.8	12.0	9.4
YoY Change	284bps	438bps	286bps	232bps	-13bps	-284bps	-574bps	123bps	125bps
<b>PAT</b>	<b>215</b>	<b>420</b>	<b>426</b>	<b>367</b>	<b>248</b>	<b>419</b>	<b>229</b>	<b>462</b>	<b>354</b>
YoY Gr (%)	132.8	109.2	69.0	59.0	15.5	(0.3)	(46.2)	25.9	42.8
PAT Margin (%)	5.2	8.1	7.6	7.5	5.5	6.6	4.0	8.2	6.8

### Exhibit 1: Regional Sales Growth (%)

Particulars	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
South	7.4	18.0	13.3	11.7	2.4	16.7	(2.6)	12.8	13.4
Non-South	-	12.8	11.0	12.7	19.2	30.5	8.0	20.5	24.8

Source: Company, Trust

### Exhibit 2: Regional Sales Mix (%)

Particulars	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
South	70	68	62	69	67	65	60	68	65
Non-South	30	32	38	31	33	35	40	33	35

Source: Company, Trust

### Exhibit 3: Quarterly Sales Performance

Particulars	Revenue (₹ mn)					Revenue Growth (%)					Revenue Mix (%)				
	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18
<b>Electronics</b>	<b>1,177</b>	<b>1,955</b>	<b>2,255</b>	<b>1,646</b>	<b>1,293</b>	<b>7.1</b>	<b>26.5</b>	<b>4.3</b>	<b>21.1</b>	<b>9.9</b>	<b>26.3</b>	<b>31.4</b>	<b>39.6</b>	<b>29.4</b>	<b>24.7</b>
Stabilizers	821	1,251	1,413	984	822	7.6	25.0	(1.5)	21.0	0.1	18.4	20.1	24.8	17.6	15.7
UPS(Standalone+ Digital)	356	704	842	662	471	6.0	29.4	15.8	21.2	32.3	8.0	11.3	14.8	11.8	9.0
<b>Electricals</b>	<b>2,034</b>	<b>2,879</b>	<b>2,366</b>	<b>2,334</b>	<b>2,454</b>	<b>11.7</b>	<b>20.7</b>	<b>3.8</b>	<b>5.0</b>	<b>20.6</b>	<b>45.5</b>	<b>46.2</b>	<b>41.6</b>	<b>41.7</b>	<b>46.9</b>
Housing wire+ LT Cable	1,362	1,877	1,579	1,643	1,695	4.4	21.4	3.4	5.7	24.4	30.4	30.1	27.7	29.3	32.4
Motor Pumps	585	915	690	561	631	35.4	23.5	4.7	15.4	7.9	13.1	14.7	12.1	10.0	12.1
Switchgears	87	87	97	130	128	3.6	(11.2)	3.2	(28.2)	47.1	1.9	1.4	1.7	2.3	2.4
<b>Consumer Durables</b>	<b>1,262</b>	<b>1,395</b>	<b>1,070</b>	<b>1,620</b>	<b>1,488</b>	<b>1.5</b>	<b>16.1</b>	<b>(8.5)</b>	<b>26.9</b>	<b>17.9</b>	<b>28.2</b>	<b>22.4</b>	<b>18.8</b>	<b>28.9</b>	<b>28.4</b>
Pumps & Motors	290	823	551	386	398	11.1	14.3	(6.0)	18.0	37.2	6.5	13.2	9.7	6.9	7.6
Heater (Electric+ Solar)	893	446	446	986	968	(1.5)	10.4	(10.6)	15.3	8.4	20.0	7.2	7.8	17.6	18.5
Others	79	126	73	248	122	5.3	61.5	(13.1)	161.1	54.4	1.8	2.0	1.3	4.4	2.3
<b>Total</b>	<b>4,473</b>	<b>6,229</b>	<b>5,691</b>	<b>5,600</b>	<b>5,235</b>	<b>7.4</b>	<b>21.4</b>	<b>1.4</b>	<b>15.3</b>	<b>17.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



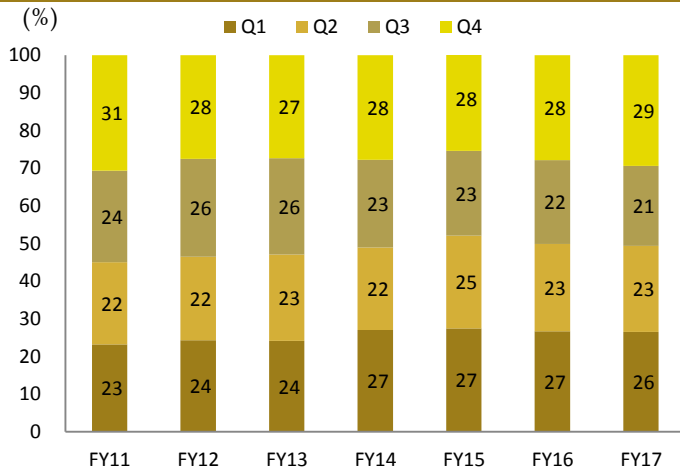
**Exhibit 4: Yearly Sales Performance**

Particulars	Revenue (₹ mn)				Revenue Gr. (%)				Revenue Mix (%)			
	FY14	FY15	FY16	FY17	FY14	FY15	FY16	FY17	FY14	FY15	FY16	FY17
<b>Electronics</b>	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
<b>Electricals</b>	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
<b>Total</b>	<b>15,177</b>	<b>17,459</b>	<b>18,624</b>	<b>21,504</b>	<b>11.6</b>	<b>15.0</b>	<b>6.7</b>	<b>15.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Trust

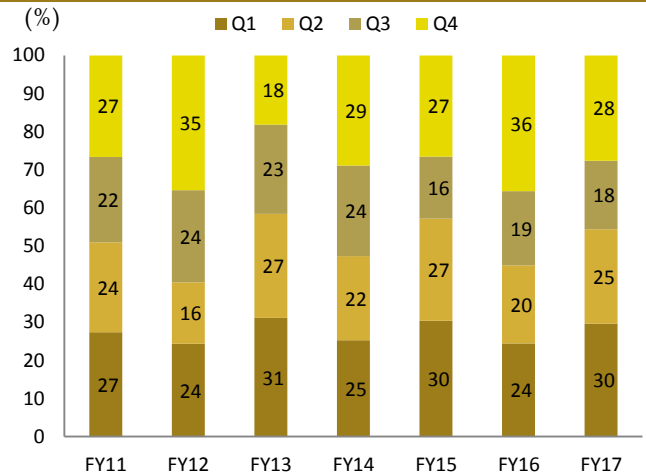
**Portfolio to counter seasonality**

**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
<b>Net Revenues</b>	<b>17,459</b>	<b>18,623</b>	<b>20,984</b>	<b>23,913</b>	<b>29,128</b>
% Growth	15.0	6.7	12.7	14.0	21.8
Raw Material	12,901	13,123	14,795	16,556	20,244
Staff	1,097	1,266	1,576	1,542	1,808
Selling and Distribution Expenses	1,663	1,910	1,900	2,518	3,049
Other Expenses	468	543	603	983	899
<b>Total Expenditures</b>	<b>16,129</b>	<b>16,843</b>	<b>18,873</b>	<b>21,598</b>	<b>26,000</b>
<b>EBITDA</b>	<b>1,330</b>	<b>1,780</b>	<b>2,111</b>	<b>2,315</b>	<b>3,127</b>
% Growth	8.5	33.8	18.6	9.7	35.1
<b>EBITDA Margins (%)</b>	<b>7.6</b>	<b>9.6</b>	<b>10.1</b>	<b>9.7</b>	<b>10.7</b>
Other Income	45	72	135	108	117
Interest	206	89	21	20	22
Depreciation	154	154	162	174	187
<b>Profit Before Tax</b>	<b>1,015</b>	<b>1,610</b>	<b>2,063</b>	<b>2,228</b>	<b>3,035</b>
Provision for tax	307	493	589	572	789
Effective tax rate (%)	30.3	30.6	28.6	25.6	26.0
<b>Reported PAT</b>	<b>707</b>	<b>1,117</b>	<b>1,473</b>	<b>1,657</b>	<b>2,246</b>
% Growth	3.2	57.8	31.9	12.5	35.6
<b>Adjusted Net Profit</b>	<b>707</b>	<b>1,117</b>	<b>1,473</b>	<b>1,657</b>	<b>2,246</b>
% Growth	3.2	57.8	31.9	12.5	35.6

### 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	5,947	7,313	9,033
<b>Shareholders' funds</b>	<b>3,777</b>	<b>4,708</b>	<b>6,372</b>	<b>7,738</b>	<b>9,458</b>
Total Debt	580	71	25	220	246
Others	273	250	271	299	337
<b>Capital Employed</b>	<b>4,630</b>	<b>5,029</b>	<b>6,668</b>	<b>8,257</b>	<b>10,040</b>
Net Fixed Assets	1,636	1,611	1,788	2,059	2,122
Cash & Cash Eq.	22	76	157	635	1,200
Net Current Assets (Ex-cash)	2,784	3,142	4,397	5,178	6,259
Others	188	395	1,216	1,423	1,758
<b>Total Assets</b>	<b>4,630</b>	<b>5,029</b>	<b>6,668</b>	<b>8,257</b>	<b>10,040</b>

**Cash Flow**

₹ mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	1,015	1,610	2,102	2,228	3,035
Depreciation	154	154	162	174	187
Total Tax Paid	(305)	(498)	(656)	(572)	(789)
Chg in working capital	(210)	(116)	(501)	(462)	(808)
Other operating activities	234	162	81	20	22
<b>Cash flow from oper (a)</b>	<b>887</b>	<b>1,311</b>	<b>1,189</b>	<b>1,389</b>	<b>1,648</b>
Capital Expenditure	(122)	(140)	(422)	(446)	(250)
Chg in investments	-	(194)	(686)	(207)	(336)
Other investing activities	(47)	17	54	-	-
<b>Cash flow from inv.(b)</b>	<b>(169)</b>	<b>(315)</b>	<b>(1,053)</b>	<b>(652)</b>	<b>(586)</b>
<b>Free cash flow</b>	<b>765</b>	<b>1,171</b>	<b>767</b>	<b>943</b>	<b>1,398</b>
Equity raised/(repaid)	37	31	92	-	-
Debt raised/(repaid)	(406)	(574)	(47)	-	-
Interest paid	(197)	(73)	(10)	(20)	(22)
Dividend (incl. Tax)	(157)	(325)	(91)	(291)	(526)
Other financing activities	-	-	-	32	23
<b>Cash flow from fin. (c)</b>	<b>(724)</b>	<b>(941)</b>	<b>(55)</b>	<b>(279)</b>	<b>(525)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(5)</b>	<b>54</b>	<b>81</b>	<b>458</b>	<b>537</b>

**Key Ratios**

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	73.9	70.5	70.5	69.2	69.5
Manpower Cost/Sales (%)	6.3	6.8	7.5	6.4	6.2
A&P Cost/Sales (%)	4.0	4.3	4.1	4.6	4.6
Revenue Growth (%)	15.0	6.7	12.7	14.0	21.8
EBITDA Margins (%)	7.6	9.6	10.1	9.7	10.7
Net Income Margins (%)	4.1	6.0	7.0	6.9	7.7
ROCE (%)	25.4	32.3	29.2	25.9	29.3
ROE (%)	18.7	23.7	23.1	21.4	23.7

**Valuation Parameters**

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹.)	1.7	2.6	3.5	3.9	5.3
P/E (x)	57.0	34.2	49.9	52.5	45.0
BV (₹)	126.0	156.5	15.0	18.2	22.3
P/BV (x)	0.8	0.6	11.5	11.3	10.7
EV/EBITDA (x)	30.7	21.4	34.3	37.0	31.6
Fixed assets turnover ratio (x)	10.8	11.6	12.5	12.7	14.9
Net Debt/Equity (x)	0.1	(0.0)	(0.0)	(0.1)	(0.1)
EV/Sales (x)	2.3	2.0	3.5	3.6	3.4



### Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
<b>Sales Trading &amp; Dealing</b>				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Sales</b>				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
<b>Research Team</b>				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

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