

# Retail Equity Research

## V-Guard Industries Limited

Electrical Equipment

BSE CODE: 532953

NSE CODE: VGUARD

Bloomberg CODE: VGRD: IN

SENSEX: 31,159

**Accumulate**

12M Investment period

Rating as per Mid Cap

CMP Rs.164

TARGET Rs.182

RETURN 11%

(Closing: 09-04-20)


**KEY CHANGES:**
**TARGET** ↓

**RATING** ↑

**EARNINGS** ↓

### Revising estimates amidst Corona outbreak

V-Guard Industries Ltd (VGIL) is one of leading player in Electrical consumer durables space. Its major product segment includes Stabilizers, cables & wires, UPS, pumps and Electrical appliances.

- We upgrade VGIL to Accumulate from Hold as we believe that near term headwinds has been factored in stock prices and future earnings outlook is healthy.
- 9MFY20 profitability grew by 44% YoY led by 300bps YoY improvement in operating margin and tax cuts.
- Management focus on expansion non-south, new product launches and expanding retail chains will continue to accelerate growth.
- Given its strong retail presence, healthy balance sheet with Rs.250cr cash, we expect VGIL to bounce back, as trade pick-ups post lockdown.
- We value the stock at P/E of 31x on FY22E, with a target price of Rs.182 and recommend to Accumulate.

### Corona update and impact on industry and company

VGIL has shut down its plants as per government directives on account of outbreak Covid-19. We expect material impact on earnings in Q4FY20 as well as Q1FY21 as Q4 & Q1 contributes 25% & 28% to the overall sales. The months of Jan & February (Q4FY20) remained strong, however, March month was fully impacted. We expect revenue growth to come back post lock down. New product launches, brand building, expanding retail chains, growing non-south markets and exploring inorganic growth opportunities underlines our confidence in VGIL. We expect stable growth in south market coupled with continued strong momentum in non-south market will support top-line growth.

### Estimate revisions

We lower full year revenue estimates by 14.1% & 17.3% for FY20 & FY21E to factor in the lock down impact. Further, given lower operating leverage, we downgrade EBITDA margins estimates by 40bps for FY21E. Consequently, our EPS estimates stand reduced by 17.6% & 24.6% for FY20E & FY21E.

### Outlook & Valuation

VGIL has delivered strong earnings momentum despite weak macros, unfavourable seasonality and other disruptions. Healthy balance sheet, strong retail network and increasing presence in non-south markets, we remain confident in VGIL. We value VGIL at P/E of 31x on FY22E, with a target price of Rs.182 and recommend Accumulate rating.

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY20	FY21E	FY20E	FY21E	FY22E	FY20E	FY21E
Revenue	2,899	3,426	2,491	2,834	3,274	(14.1)	(17.3)
EBITDA	284	360	244	286	344	(14.1)	(20.6)
Margins (%)	9.8	10.6	9.8	10.1	10.5	-	(40bps)
Adj. PAT	216	277	181	211	251	(16.2)	(23.8)
EPS (Rs.)	5.1	6.5	4.2	4.9	5.9	(17.6)	(24.6)

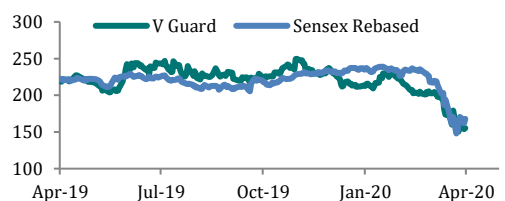
### Company Data

Market Cap (cr)	Rs.6,899
Enterprise Value (cr)	Rs.6,940
Outstanding Shares (cr)	42.8
Free Float	37.2%
Dividend Yield	0.51%
52 week high	Rs.260
52 week low	Rs.149
6m average volume (cr)	0.1
Beta	1.2
Face value	Rs.1.0

Shareholding %	Q1FY20	Q2FY20	Q3FY20
Promoters	64.1	64.1	62.8
FII's	12.7	12.9	13.5
MFs/Insti	12.1	12.4	13.1
Public	9.3	9.4	9.5
Others	1.8	1.2	1.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-27.0%	-31.2%	-29.9%
Absolute Sensex	-28.7%	-22.7%	-24.2%
Relative Return*	1.6%	-8.6%	-5.7%

\*over or under performance to benchmark index



Standalone (cr)	FY20E	FY21E	FY22E
Sales	2,491	2,834	3,274
Growth (%)	(2.9)	13.8	15.5
EBITDA	244	286	344
EBITDA Margin (%)	9.8	10.1	10.5
Adj. PAT	181	211	251
Growth (%)	9.6	16.5	18.7
Adj. EPS	4.2	4.9	5.9
Growth (%)	9.4	16.5	18.7
P/E	38.1	32.7	27.5
P/B	4.6	4.0	3.4
EV/EBITDA	28.4	24.2	20.2
ROE (%)	18.7	18.6	18.9
D/E	0.0	0.0	0.0

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>2,312</b>	<b>2,566</b>	<b>2,491</b>	<b>2,834</b>	<b>3,274</b>
% change	10.8	11.0	(2.9)	13.8	15.5
<b>EBITDA</b>	<b>187</b>	<b>219</b>	<b>244</b>	<b>286</b>	<b>344</b>
% change	(10.4)	17.4	11.2	17.2	20.1
Depreciation	19	22	29	35	41
<b>EBIT</b>	<b>168</b>	<b>198</b>	<b>216</b>	<b>251</b>	<b>302</b>
Interest	2	1	4	6	6
Other Income	11	18	24	30	30
<b>PBT</b>	<b>177</b>	<b>215</b>	<b>236</b>	<b>274</b>	<b>326</b>
% change	(13.0)	21.0	9.8	16.5	18.7
Tax	44	49	54	63	75
Tax Rate (%)	24.9	22.9	23.0	23.0	23.0
<b>Reported PAT</b>	<b>133</b>	<b>165</b>	<b>181</b>	<b>211</b>	<b>251</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>133</b>	<b>165</b>	<b>181</b>	<b>211</b>	<b>251</b>
% change	(8.0)	24.4	9.6	16.5	18.7
No. of shares (cr)	42.6	42.7	42.7	42.7	42.7
<b>Adj EPS (Rs.)</b>	<b>3.1</b>	<b>3.9</b>	<b>4.2</b>	<b>4.9</b>	<b>5.9</b>
% change	(8.2)	24.0	9.4	16.5	18.7
DPS (Rs.)	0.6	0.8	0.8	0.8	0.8
CEPS (Rs.)	3.6	4.4	4.9	5.8	6.8

## CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>152</b>	<b>187</b>	<b>210</b>	<b>246</b>	<b>292</b>
Non-cash adj.	3	(10)	(20)	(23)	(23)
Changes in W.C	(118)	(38)	(20)	(108)	(74)
<b>C.F. Operation</b>	<b>54</b>	<b>153</b>	<b>171</b>	<b>116</b>	<b>196</b>
Capital exp.	(41)	(51)	(91)	(59)	(59)
Change in inv.	8	(8)	(50)	(80)	(80)
Other invest.CF	7	10	24	30	30
<b>C.F - Investment</b>	<b>(27)</b>	<b>(50)</b>	<b>(117)</b>	<b>(109)</b>	<b>(109)</b>
Issue of equity	3	5	-	-	-
Issue/repay debt	(3)	8	27	-	-
Dividends paid	(36)	(36)	(36)	(36)	(36)
Other finance.CF	(1)	(0)	(4)	(6)	(6)
<b>C.F - Finance</b>	<b>(37)</b>	<b>(24)</b>	<b>(13)</b>	<b>(42)</b>	<b>(42)</b>
Chg. in cash	(10)	80	40	(36)	44
Closing cash	5	84	125	89	133

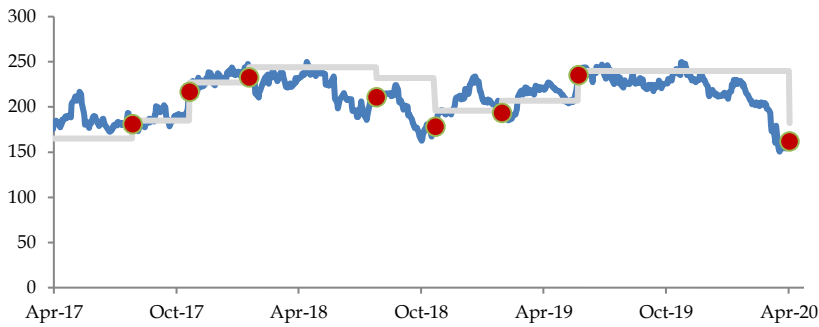
## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	5	84	125	89	133
Accounts Receivable	444	467	444	528	583
Inventories	311	371	350	397	457
Other Cur. Assets	103	123	158	180	208
Investments	84	92	142	222	302
Gross Fixed Assets	227	254	324	394	454
Net Fixed Assets	196	210	251	286	305
CWIP	7	8	30	20	20
Intangible Assets	4	3	2	1	0
Def. Tax (Net)	(3)	(2)	(3)	(3)	(4)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>1,152</b>	<b>1,357</b>	<b>1,500</b>	<b>1,721</b>	<b>2,005</b>
Current Liabilities	362	401	373	413	475
Provisions	35	42	41	47	54
Debt Funds	3	14	41	41	41
Other Liabilities	-	-	-	-	-
Equity Capital	43	43	43	43	43
Reserves & Surplus	709	857	1,002	1,178	1,393
Shareholder's Fund	752	900	1,045	1,221	1,435
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>1,152</b>	<b>1,357</b>	<b>1,500</b>	<b>1,721</b>	<b>2,005</b>
<b>BVPS (Rs.)</b>	<b>25</b>	<b>30</b>	<b>35</b>	<b>41</b>	<b>48</b>

## RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	8.1	8.5	9.8	10.1	10.5
EBIT margin (%)	7.3	7.7	8.7	8.9	9.2
Net profit mgn.(%)	5.8	6.4	7.3	7.5	7.7
ROE (%)	19.2	20.0	18.7	18.6	18.9
ROCE (%)	19.3	20.0	18.5	18.4	18.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	59.7	64.8	66.7	62.6	61.9
Inventory (days)	66.1	69.1	77.3	70.5	70.1
Payables (days)	70.5	77.4	83.0	74.2	72.9
Current ratio (x)	2.2	2.4	2.6	2.6	2.6
Quick ratio (x)	1.2	1.4	1.5	1.5	1.5
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	11.4	10.7	8.6	7.9	7.7
Total asset T.O (x)	2.2	2.0	1.7	1.8	1.8
Int. coverage ratio (x)	101.1	155.7	54.7	41.2	49.6
Adj. debt/equity (x)	0.0	0.0	0.2	0.1	0.0
<b>Valuation</b>					
EV/Sales (x)	3.0	2.7	2.8	2.4	2.1
EV/EBITDA (x)	36.8	31.5	28.4	24.2	20.2
P/E (x)	51.7	41.7	38.1	32.7	27.5
P/BV (x)	6.5	5.4	4.6	4.0	3.4

## Recommendation Summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
25-January-18	Hold	244
08-June-18	Accumulate	225
03-August-18	Accumulate	232
29-October-18	Accumulate	196
02-February19	Hold	207
31-May-19	Hold	240
26-July-19	Hold	247
09-April-20	Accumulate	182

## Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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