

## Profitability cushioned by significant cost savings...

V-Guard's Q1FY21 performance was severely impacted by the lockdown, wherein topline, bottomline fell 42%, 93%, respectively. While EBITDA fell 87% YoY, the company took significant cost saving measures (in employee, advertisement & other costs) to cushion operating profit in Q1FY21. Going forward, the company expects a sharp margin recovery with improvement in sales. V-Guard saw a sharp recovery in sales on a month on month basis with 90% business recovery in June 2020 compared to almost zero sales in April 2020. While the business recovery was faster in south region (~59% of sales) due to fewer Covid-19 infections, non-south region's recovery was delayed owing to pandemic related lockdowns. Business contribution of non-south regions has increased from 33% in FY15 to 41% in FY20. While intermediary lockdowns in selected regions weigh on recovery process, the good part is that low inventory at channels would lead to a faster sales recovery for the company as and when normalcy returns in economy. We revise our FY21E, FY22E earnings estimates upward marginally and maintain our positive stance on the stock with expectation of sharp business recovery from FY22E onwards and intact margin profile.

### June 2020 sales recover 90% YoY

With faster sales recovery in south due to easing of lockdown restrictions (especially Karnataka, Kerala), overall June 2020 sales recovered to 90% YoY. Segment wise, electronic, electrical, consumer durable sales declined, 51%, 31%, 44% respectively. According to the company, a faster demand recovery in suburban regions would offset a delay in recovery from urban regions, which are facing intermediary lockdowns, going forward.

### Sharp decline in other costs rescues operating profit

A sharp fall in revenue of high margin products (like stabilisers) weighed on the gross margin, which fell 334 bps YoY. However, cost rationalisation measures on multiple fronts (ad spends was 0.8% of revenues vs. 2.9% in Q1FY20), employee cost was down 9% YoY while other expenditure fell 43% YoY, respectively. The management has guided at a better EBITDA margin, going forward, with improvement in sales.

### Valuation & Outlook

We like V-Guard for its long journey from being a regional to a national player without compromising the quality of earnings with balance sheet. Despite such a challenging condition, the company has generated CFO of ₹ 216 crore in Q1FY21 with improvement in working capital turnover. Further, the company's plan to increase focus on profitable business through expanding dealer networks and brand building activities along with prudent working capital management, would keep V-Guard's cash flow generation capacity intact. We maintain our **BUY** rating on the stock with target price at ₹ 210/share.



#### Particulars

Particular	Amount
Market Capitalization (₹Crore)	7,066.8
Total Debt (FY 20) (₹Crore)	10.0
Cash and Inv (FY 20) (₹Crore)	84.7
EV (₹Crore)	6,992.1
52 week H/L	260 / 149
Equity capital (₹Crore)	42.5
Face value (₹)	1.0

#### Key Highlights

- Severe impact on performance due to lockdown. Non south regions revenue declined by 47% while south regions revenue declined by 38%
- Month on Month improvement in sales and gross margin, post ease in restrictions from lockdown
- Cash flow from operations of ₹ 215 crore in Q1FY21, with improved working capital turnover
- Maintain BUY rating on stock with target price of ₹ 210/share

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#### Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	2311.7	2566.4	2482.0	2267.2	2805.4	3.0
EBITDA	186.9	219.4	253.3	215.4	308.6	12.0
EBITDA Margin (%)	8.1	8.5	10.2	9.5	11.0	
PAT	133.1	165.5	185.2	153.8	222.8	10.4
EPS (₹)	3.1	3.9	4.3	3.6	5.2	
P/E(x)	52.6	42.3	38.2	46.0	31.7	
Price /Book Value (x)	9.3	7.8	7.1	6.8	5.9	
EV/EBITDA (x)	37.4	31.5	27.4	32.5	22.6	
RoE (%)	17.7	18.4	18.6	14.8	18.5	
RoCE (%)	23.7	23.7	24.8	19.7	24.3	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comment
Revenue	405.8	699.4	-42.0	536.6	-24.4	Sales loss for almost 40 days dragged revenue down
Other Income	4.7	6.4	-27.3	5.2	-9.6	
Raw Material Exp	230.7	227.0	1.6	59.5	287.6	Significant drop in sales of high margin products (stabilisers) drags gross margin by 334 bps YoY
Employee Exp	54.6	60.2	-9.3	43.2	26.6	No variables pays help in cost reduction
Other Exp	54.9	96.3	-43.0	90.6	-39.4	Advertisement & promotional expense lower at 0.8% of revenues compared to 2.9% in Q1FY20
Purchase of Traded goods	56.6	244.7	-76.9	298.2	-81.0	
EBITDA	9.1	71.1	-87.3	45.2	-79.9	
EBITDA Margin (%)	2.2	10.2	-794 bps	8.4	-618 bps	EBITDA margin largely impacted by low operating leverage
Depreciation	7.9	6.7	16.8	7.1	11.1	
Interest	1.1	1.1	2.1	0.9	25.9	
PBT	4.8	69.8	-93.1	42.4	-88.7	
Total Tax	1.2	17.3	-93.2	9.9	-88.2	
PAT	3.6	52.5	-93.1	32.5	-88.9	Impacted by lower sales and decline in EBITDA
<b>Key Metrics</b>						
Electronics	137.7	282.8	-51.3	150.3	-8.4	Lockdown impact severe on stabiliser category due to lower sales RACs
Electricals	182.7	263.2	-30.6	242.2	-24.6	Better recovery in south regions restrict any sharp fall in segment revenue
Consumer Durable	85.5	153.4	-44.3	144.1	-40.7	Non south region sales impacted severely by lockdown

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

₹ Crore	FY21E			FY22E			Comments
	Old	New	% chg	Old	New	% chg	
Revenue	2,238.3	2267.2	1.3	2,768.6	2805.4	1.3	We slightly tweak our estimates to reflect Q1FY21 performance and outlook
EBITDA	212.6	215.4	1.3	304.5	308.6	1.3	
EBITDA Margin %	9.5	9.5	0bps	11.0	11.0	0bps	
PAT	151.0	153.8	1.8	218.1	222.8	2.2	
EPS (₹)	3.5	3.6	1.5	5.1	5.2	2.2	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Electronics Growth	4.2	-0.7	-12.8	29.7	-15.2	29.6	We expect a recovery in business from H2FY21 onwards supported by better demand for cooling products
Electricals Growth	11.0	-6.7	-10.5	19.2	-11.2	19.2	We believe recovery in the construction activities would drive demand of wire, pump and new launches in the switchgear segment
Cons. Durable Growth	17.9	-0.5	-1.2	24.2	-1.6	24.2	Performance of consumer durable segment will be driven by low base of new products like kitchen appliances, air coolers, smart fans, etc

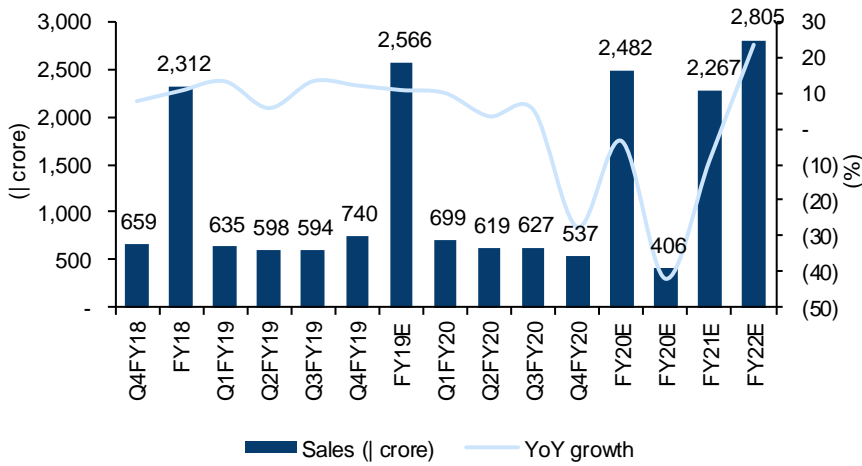
Source: Company, ICICI Direct Research

## Conference call highlights

- Month on month recovery on sales and gross margin during April-June 2020. Turnover in April 2020, May 2020 and June 2020 was ₹ 4.52 crore, ~₹ 184 crore and ~₹ 218 crore, respectively. Gross margin also improved on a month on month basis
- Opening up of south regions drove the recovery process led by Karnataka and Kerala
- Working capital days improved 61 days compared to 86 days in Q4FY20 due to a decline in inventory and improved collection during the period
- Demand recovery in non-metros and suburban regions was faster compared to metros and tier 1 cities. Recovery in July was also progressing with ~70% outlets starting operation despite intermediary lockdowns
- The second half of March tends to be a strong period, due to pre-buying of summer products (at dealers level) and also due to closing of annual schemes & incentives
- Sales in April was zero. Further, ~60% of the company's dealers have resumed business by the end of May 2020
- Review of advertisement expenditure will only be after seeing improvement in demand. The company has put a cap on discretionary spends (such as travelling, etc) to safeguard margin
- Channel inventory has normalised to 30 days (lower than before). The channel is not stocking inventory on fears of a lockdown
- Stabilisers sales were impacted in Q1 due to lower sales of RACs that dragged overall gross margins
- With no clear trend of downtrading of products, sales are secular across segments. The demand is largely a consumer pull demand
- The unorganised category has suffered in the lockdown and benefitted organised players
- There will be capex of ₹ 35 crore for FY21 of which ₹ 25 crore will be towards wire capacity with ₹ 10 crore for IT infrastructure development
- The company started selling through e-commerce channel two years back, which is gaining traction and the margin profile is better on e-commerce than selling through normal trade. Currently, ~3% of sales are coming from ecommerce sales
- In the last six years, the company has shut down less profitable business to focus only profitable business. Hence, while sales growth has been impacted, the margin profile has improved significantly
- The price difference between south and non-south regions has reduced and gross margin is almost similar for both regions

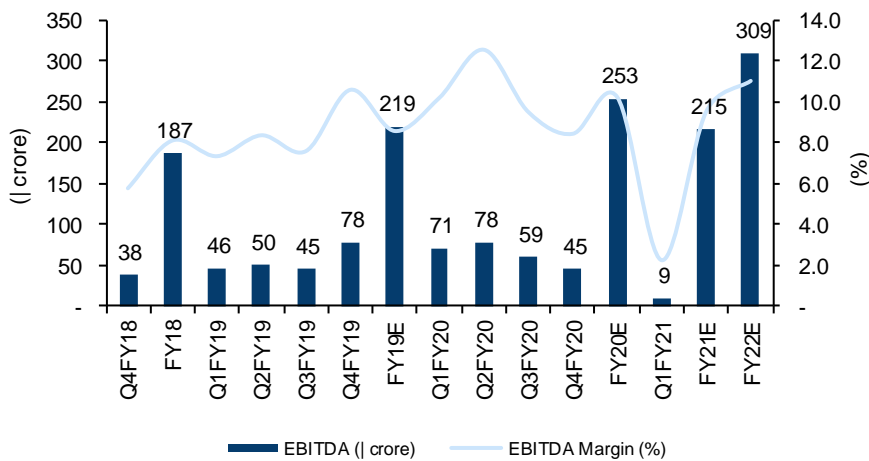
### Financial story in charts

**Exhibit 4: Faster recovery in south regions, gradual opening of domestic markets to help drive revenue of company**



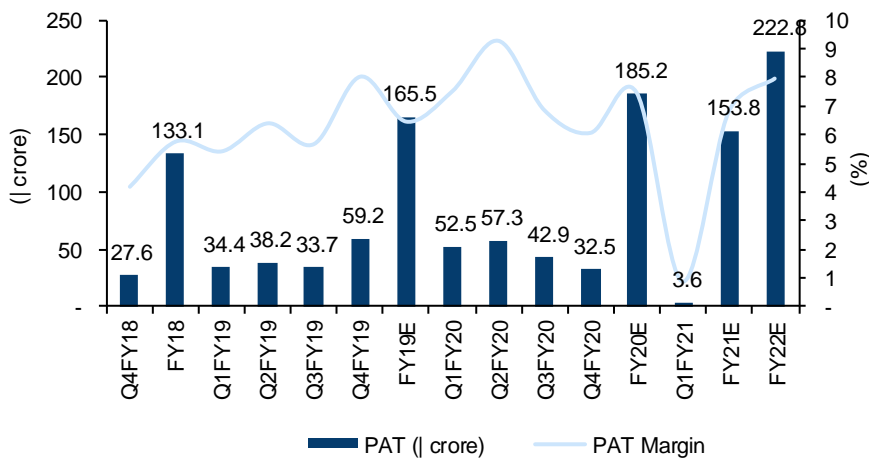
Source: Company, ICICI Direct Research

**Exhibit 5: EBITDA margin movement**



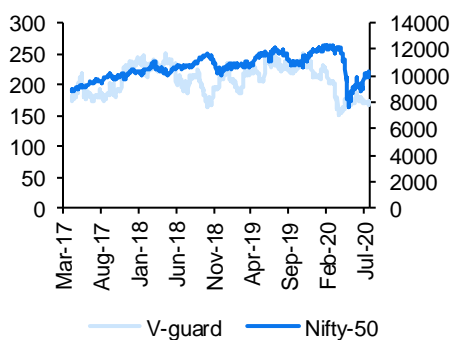
Source: Company, ICICI Direct Research

**Exhibit 6: PAT growth led by margin expansion**



Source: Company, ICICI Direct Research

Exhibit 7: Historical price trend



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	64.1	64.1	62.8	62.7	62.7
FII	12.7	12.9	13.5	13.4	13.1
DII	12.1	12.1	13.1	13.4	13.3
Others	11.1	10.9	10.6	10.5	10.9

Source: Company, ICICI Direct Research

## Financial summary

Profit and loss statement		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Net Sales	2566.4	2482.0	2267.2	2805.4	
Growth (%)	23.1	-3.3	-8.7	23.7	
Expenses					
Raw Material Expenses	735.9	635.9	634.8	785.5	
Purchase of stock	1063.2	1022.3	872.9	1080.1	
Employee Expenses	202.0	206.8	204.1	238.5	
Administrative Expenses	345.8	363.7	340.1	392.8	
Total Operating Expenditu	2347.0	2228.7	2051.8	2496.8	
EBITDA	219.4	253.3	215.4	308.6	
Growth (%)	5.2	15.4	-15.0	43.3	
Other Income					
Interest	1.3	3.7	5.2	3.5	
PBDT	236.4	273.5	235.7	337.6	
Depreciation	21.8	28.1	31.7	42.1	
PBT before Exceptional lte	214.6	245.4	203.9	295.5	
PBT	214.6	245.4	203.9	295.5	
Total Tax	49.1	60.3	50.2	72.7	
PAT	165.5	185.2	153.8	222.8	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Equity Capital	42.7	42.8	42.8	42.8	
Reserve and Surplus	857.0	950.7	998.4	1159.4	
Total Shareholders funds	899.7	993.5	1041.2	1202.2	
Total Debt	10.0	10.0	20.0	30.0	
Deferred Tax Liability	2.2	0.0	0.0	0.0	
Total Liability	497.5	640.8	757.9	915.6	
Assets					
Total Gross Block	363.6	445.6	571.5	641.5	
Less Total Accumulated L	149.8	177.9	209.6	251.7	
Net Block	213.8	267.8	361.9	389.8	
Total Fixed Assets	221.5	334.6	372.9	400.8	
Inventory	370.9	476.4	465.9	553.4	
Debtors	467.2	321.8	378.9	468.8	
Loans and Advances	9.4	8.6	2.9	3.6	
Cash	84.7	111.3	48.6	71.9	
Total Current Assets	1004.7	1021.3	990.6	1214.5	
Creditors	356.1	300.7	260.9	322.8	
Provisions	42.4	46.0	40.0	49.4	
Total Current Liabilities	443.7	399.3	348.9	431.7	
Net Current Assets	561.1	622.0	641.7	782.7	
Total Assets	497.5	640.8	757.9	915.6	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit after Tax	165.5	185.2	153.8	222.8	
Depreciation	21.8	28.1	31.7	42.1	
Cash Flow before working capital ch	188.6	217.0	190.7	268.4	
Net Increase in Current Assets	-91.7	10.0	-32.0	-200.5	
Net Increase in Current Liabilities	46.9	-44.3	-50.4	82.8	
Net cash flow from operating act	143.9	182.7	108.3	150.7	
(Purchase)/Sale of Fixed Assets	-35.6	-141.2	-70.0	-70.0	
Net Cash flow from Investing act	-55.4	-61.0	-69.8	-72.0	
Inc / (Dec) in Equity Capital	0.1	0.1	0.0	0.0	
Inc / (Dec) in Loan Funds	0.0	0.0	0.0	0.0	
Total Outflow on account of dividend	-42.9	-46.4	-51.5	-61.8	
Net Cash flow from Financing act	-8.7	-95.1	-101.3	-55.3	
Net Cash flow	79.7	26.6	-62.7	23.3	
Cash and Cash Equivalent at the beg.	5.0	84.7	111.3	48.6	
Cash	84.7	111.3	48.6	71.9	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Per Share Data (₹)					
EPS	3.9	4.3	3.6	5.2	
Cash EPS	4.4	5.0	4.3	6.2	
BV	21.2	23.2	24.3	28.1	
DPS	1.0	1.1	1.2	1.4	
Operating Ratios (%)					
EBITDA Margin	8.5	10.2	9.5	11.0	
PAT Margin	6.4	7.5	6.8	7.9	
Return Ratios (%)					
RoE	18.4	18.6	14.8	18.5	
RoCE	23.7	24.8	19.7	24.3	
RoIC	28.3	28.6	19.1	24.0	
Valuation Ratios (x)					
EV / EBITDA	31.5	27.4	32.5	22.6	
P/E	42.3	38.2	46.0	31.7	
EV / Net Sales	2.7	2.8	3.1	2.5	
Market Cap / Sales	2.8	2.8	3.1	2.5	
Price to Book Value	7.8	7.1	6.8	5.9	
Turnover Ratios (x)					
Asset turnover	2.8	2.5	2.1	2.3	
Debtors Days	66.4	47.3	61.0	61.0	
Creditors Days	50.6	44.2	42.0	42.0	
Solvency Ratios (x)					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.1	2.3	2.7	2.6	
Quick Ratio	1.2	1.1	1.4	1.4	

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Asian Paints (ASIPAI)	1,740	1,900	Hold	1,66,866	29.0	21.8	32.6	60.0	79.9	53.3	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0
Astral Polytechnik (ASTP)	933	900	Hold	14,057	16.6	14.2	20.0	56.3	65.5	46.6	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Amber Enterprises (AM)	1,472	1,565	Hold	4,629	52.2	15.1	54.9	28.2	97.4	26.8	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7
Bajaj Electricals (BAJEL)	435	495	Buy	4,946	0.0	4.1	14.8	NM	106.2	29.5	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	522	570	Hold	50,697	6.8	6.0	10.0	77.3	87.1	52.1	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7
Essel Propack (ESSPRC)	199	190	Hold	5,518	6.7	6.0	7.9	29.7	33.2	25.2	10.3	10.0	8.4	15.6	13.9	15.9	14.3	11.5	14.2
Havells India (HAVIND)	570	630	Hold	35,562	11.7	8.0	14.4	48.5	71.1	39.6	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	432	415	Buy	23,281	9.9	7.8	10.4	43.5	55.3	41.5	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,370	1,485	Hold	70,237	21.9	18.3	26.2	62.6	74.7	52.3	44.7	51.5	37.0	31.0	24.4	32.6	26.1	19.8	26.6
Polycab India (POLI)	817	950	Buy	12,163	51.4	42.2	55.4	15.9	19.4	14.7	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0
Supreme Indus (SUPINC)	1,264	1,245	Hold	16,056	36.8	28.4	41.5	31.8	41.2	28.2	18.0	20.8	15.6	22.5	17.5	22.3	20.7	15.3	20.1
Symphony (SYMLIM)	864	1,055	Buy	6,044	26.0	23.7	35.1	33.2	36.5	24.6	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
Time Techno (TIMTEC)	38	42	Hold	859	7.5	3.2	9.0	5.1	12.0	4.2	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7
V-Guard Ind (VGUARD)	165	210	Buy	7,067	4.3	3.6	5.2	38.2	46.0	31.7	27.4	32.5	22.6	24.8	19.7	24.3	18.6	14.8	18.5
Voltas Ltd (VOLTAS)	589	635	Buy	19,480	15.8	9.5	21.4	37.4	62.0	27.5	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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