

Stock Update

Overall guidance intact

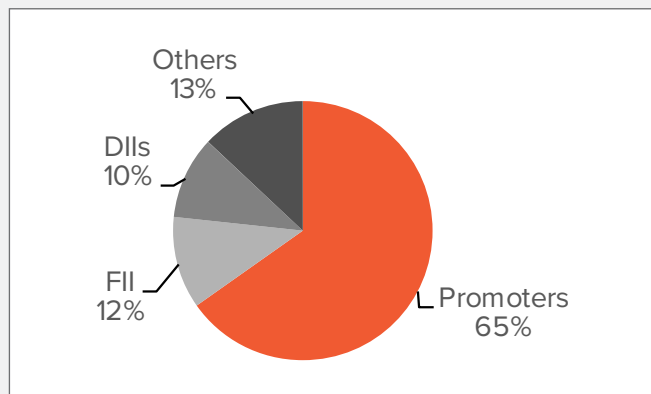
V-Guard Industries

Reco: Buy | CMP: Rs194

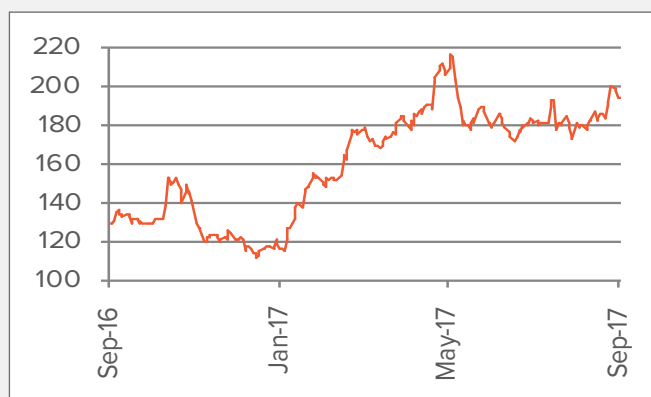
Company details

Price target:	Rs215
Market cap:	Rs8,195 cr
52-week high/low:	Rs221/109
NSE volume: (No of shares)	10 lakh
BSE code:	532953
NSE code:	VGUARD
Sharekhan code:	VGUARD
Free float: (No of shares)	14.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.9	7.2	11.1	49.0
Relative to Sensex	8.4	3.0	-1.1	29.6

We interacted with the management of V-Guard Industries (V-Guard) to discuss its broad business strategy, financials and outlook for the company. The key highlights were:

Key points

- ♦ **Restocking seen faster in the south market than non-south market:** Management of V-Guard stated that restocking of trade channels is at a faster pace in southern market rather than in northern market. However, management expects restocking to continue in Q3 due to onset of the festive season. Management sees restocking across all product categories of the company.
- ♦ **Price hike taken in select categories:** Management stated that it has taken significant price hike in the wires and cables segment to offset commodity price inflation, while it has taken marginal price hike of 2-3% in rest of the product categories. Management expects good demand for the wires and cables and fan segments in Q2FY2018.
- ♦ **New product launch in southern market:** V-Guard launched gas stove in its home market on the festive occasion of Onam in Kerala. The company intends to stabilise new products in the southern market, post which the company would launch on pan-India basis. Further, the company is planning to launch modular switches in the dominant southern market as a natural extension of wire accessories and switchgear segment in the current year. Management expects Rs.65 crore-70 crore revenue from kitchen appliances category in FY2018.
- ♦ **Efforts to expand dealer network in the non-south market on track:** V-Guard's strategy to become a pan-India player by adding 15,000 retailers over a period of five years is on track. The company intends to add more dealers in the non-south market than south market. Management also guided that the non-south dealer margin is converging to the levels of south market dealers, thus reducing selling and distribution cost.
- ♦ **Inorganic growth on cards:** V-Guard is open for inorganic growth, where the company provides product synergy, manufacturing capabilities or strong regional player where it can expand its geographical presence given the cash positive balance sheet.

- ◆ **Reiterate Buy with revised PT of Rs.215:** Post interaction with the management, we have marginally tweaked our earnings estimate for FY2018 and FY2019 to factor the price hike undertaken by the company to combat commodity inflation. Moreover, management has reiterated its sales growth of 15% and EBITDA margin of 10% for FY2018 despite disruption of GST in Q1FY2018. Management expects uptick in sales growth in H2FY2018.

The working capital cycle, which got elongated in Q1 due to increased inventory days (channel de-stocking) is expected to stabilise in future. We continue to assign premium valuation to V-Guard on account of de-leveraged balance sheet, better margin profile, high return ratios and prudent working capital management. We reiterate Buy on the stock with a revised price target (PT) of Rs.215.

Valuations	Rs cr				
	FY2015	FY2016	FY2017	FY2018E	FY2019E
Net sales	1,746	1,862	2,151	2,501	3,009
% Y-o-Y growth	15.1	6.6	15.5	16.3	20.3
Operating margin (%)	7.6	9.6	10.0	10.0	10.5
Net profit	71	112	152	186	240
Adjusted EPS	1.7	2.6	3.6	4.4	5.7
% Y-o-Y growth	1.6	56.6	36.0	22.8	28.7
PER	114.9	73.4	54.0	44.0	34.2
P/B	21.7	17.4	12.9	10.5	8.5
EV/EBIDTA	59.8	44.1	35.4	29.9	23.3
RoCE (%)	28.7	37.2	38.0	35.4	37.0
RoNW (%)	20.5	26.3	27.4	26.3	27.4
RoIC (%)	28.9	38.4	43.1	42.2	45.3
Div Yield (%)	0.2	0.3	0.0	0.4	0.6

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