

## V-Guard Industries Ltd (VGIL)

February-10

Industry: Electronic & Electrical

CMP Rs 80

Recommendation: BUY

### Key Data

BSE Code :	532953
NSE Code :	VGUARD
52-Week Range(H/L)	95 / 38
Market Cap (Rs Mn) :	2388
Face Value :	10

### Investment Rationale:

® **Semi urban & rural India Focus:** Considering the growing potential of semi urban and rural India and increased Govt. emphasis on these markets, VGuard has increased its focus to these markets for its products like stabilisers, water pumps, and solar water heaters.

® **High Brand Equity:** VGIL is a household name in South India and enjoys high recall among the consumers. The company is leveraging its brand to extend its portfolio to other electrical appliances by launching new products in its segment.

### Industry Snapshot

Customers	Open
Market Presence	India
Govt Regulations	Medium
M-View	Positive

® **Unique manufacturing model:** VGIL follows a very unique way of business model for manufacturing several of its products which brings in efficiency, ensures high margins and offers a huge scope of expansion depending on the demand from the consumer's end.

® **Diversified product base de-risks the business model:** VGIL has diversified its product portfolio through a growing presence in other electronic and electrical goods segments which mitigates the impact on account of slowdown in any one particular segment on the financial profile of the company.

### Promoters/ Management

P G R Prasad	Chairman
K.Chittillappilly	MD
M.Chittillappilly	ED

® **Wide distribution network:** VGIL currently has a wide distribution network of 170 distributors, 7100 Dealers and 200 service centers in pan India.

® **Aggressive northern marketing strategies:** After gaining strong foothold in the South India market VGIL has now focused its strategies to capture the North India Market, with a vision to be a national player in electrical and electronic segment.

### Shareholding as on Dec-09

Foreign	0.56
Institutions	1.92
Promoters	71.1
Public & Others	26.5

® **New capacities have started production:** VGIL has completed its new facility in Uttaranchal to expand the building cables business. The housing wires & cables division is expected to contribute around Rs 1500- 2000 Mn collectively on 100% capacity utilisation level.

### MView & Valuation

We believe VGuard is a pure play in the burgeoning Indian consumer electronic industry. We are positive on the business outlook on the voltage stabilizers, cables & pump segment. We expect topline to grow on the back of new plant, commissioned in mid 2009 which produces housing cable in Uttaranchal & Coimbatore with full capacity under production would help V-Guard to add around Rs. 1000 -1200 Mn yearly. At the CMP, the stock trades at 9.6x its FY 10E earnings of Rs 8.34 and 6.4x to its FY 11E earnings for Rs 12.49. V-Guard looks reasonably well set in its segment because of its brand loyalty they have retained in the south Indian states. Comparable peers in both cables & consumer durables trade at 13-18 times. Hence, we recommend investors to buy with a medium-to-long term horizon.

### Price Charts



### Research Analyst

Prashanth Tapse  
E-Mail: prashanth.tapse@methagroup.in  
Contact: 022-40070156

### Financial Performance (Rs.Mn)

	FY09	FY10E	FY11E	FY12E
Net Sales	3,168	4,172	6,061	8,160
EBITDA	318	476	701	950
EBITDA margin (%)	10.0%	11.4%	11.6%	11.6%
Net Profit	173	249	373	504
PAT Margins (%)	5.5%	6.0%	6.2%	6.2%
EPS	5.8	8.3	12.5	16.9
PE (x)		9.6	6.4	4.7

**About the Company**

**V-Guard Industries Ltd (VGIL)** is a leading electrical product and solutions provider in South India. The company markets all its products under the brand “**V-Guard**”, which has a strong brand value among South Indian consumers and is a household name across India.



V-Guard basically started its business as a stabilizer & water pump marketing company thereafter looking at the electronic industry scenario & its potential growth, VGIL expanded its portfolio to cables, electric & solar water heaters, UPS, Fans etc to support the electronics product range. Currently VGuard is the only company in India to offer 3 layer insulation in house wiring cables which provides more safety & reliability.

Currently VGuard has its own marketing office in all the major states of the country with a distribution network of over 170 distributors and over 200 service centres located throughout India.

**Business segment in Brief:**

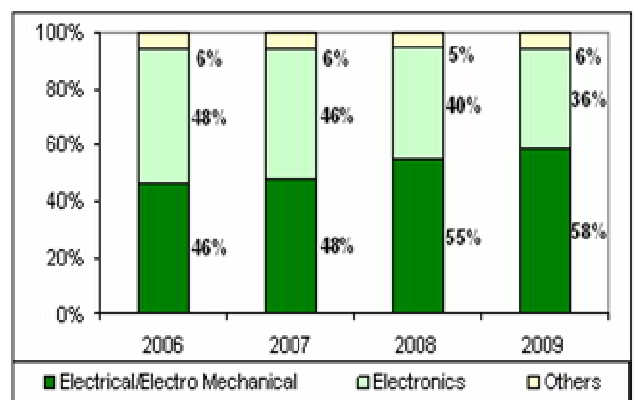
VGIL operates in three main segments: Electrical and Electro Mechanical Products, Electronic Products and Other Products. The company does in-house manufacturing of some of the products and the other products, the designs are done in-house and manufacturing is outsourced to SSI units in South India. This helps VGIL to optimize its resources. The Manufacturing facilities are located at Coimbatore districts of Tamil Nadu and Udhamsing Nagar district of Uttarakhand. Electric cables and solar water heaters are manufactured in-house.

**Electrical and Electro Mechanical:** The products in this division include PVC insulated cables, pumps, water heaters, fans and LT power and control cables. Currently, this segment contributes 58% of the revenues.

**Electronics:** The products in this segment include voltage stabilizers, UPS and digital home UPS. This segment contributes around 36% to the topline.

**Other products:** Include solar water heaters, water level controller and windmill energy. This segment contributes 5-6% to the topline.

**New cable capacity:** Last April, the company commenced commercial production at two new power cable facilities, one of which is in Uttaranchal to cater the northern markets. This factory makes building wire cables (2 lakh coils per month at optimum capacity). V-Guard has also begun work in the newly set up LT cable factory at Coimbatore last year. In coming quarters VGuard has planed for a second insulating line at Kashipur, which would take the total capacity from 2.2 lakh coils pm to 4.2 lakh coils pm.



## **Investment Rationale:**

**Semi urban & rural India Focus:** Considering the growing potential of semi urban and rural India and increased Govt. emphasis on these markets, VGuard has increased its focus to these markets for its products like stabilisers, water pumps, and solar water heaters. The growth in agriculture projects will lead to increased demand for water pumps segment. will be the key area to witness growth. Solar water heaters have also started performing well as rising electricity cost and power cuts have made this product very attractive for cost effective consumption. For the above demand drivers VGuard is well positioned with strong distribution and marketing channel covering small towns and villages to explore the rural markets in a better way.

**High Brand Equity:** VGuard is a household name in South India and enjoys high recall among the consumers. The company is leveraging its brand to extend its portfolio to other electrical appliances by launching new products in its segment. With constant improvement in performance of its products, augmented with quality and recognition of the brands, the company enjoys considerable brand equity and reliability in its already existing market. On account of this and because of its long-standing presence in the Southern Indian market the company has an excellent chance to capitalise the brand image built in south India for penetrating North Indian growth markets.

**Unique manufacturing model:** V-Guard follows a unique business model for manufacturing several of its products which brings in efficiency, ensures high margins and offers a huge scope of expansion depending on the demand from the consumer's end. The company has entered into long term contracts with several SSI units located around Coimbatore to manufacture these products. These products underwent strict quality controls before being shipped to its distribution network. Currently products other than wires, cables and solar water heaters are outsourced from exclusive vendors. V-Guard has maintained its focus on R&D for constant improvement in performance of its products, augmented with quality and launching new range of products.

**Diversified product base de-risks the business model:** VGIL has diversified its product portfolio through a growing presence in other electronic and electrical goods segments which mitigates the impact on account of slowdown in any one particular segment on the financial profile of the company. VGuard has a distinct advantage of being in several sectors such as consumer durables (stabilizers, water heaters, fans), agricultural (motor pumps), business needs (UPS), Construction sector (cables) etc. The revenues are distributed across the divisions with stabilizers around 30% to the company's revenues Cables contributes 28%, pumps (19%), Water heater (10%). VGIL is the market leader in the organized stabilizer market and is the only stabilizer player to have a pan India presence. The solar water heater market is also growing as the government has made mandatory their use for commercial establishments like hospitals, guest houses, hotels, nursing homes etc under the National Solar Mission.

**Wide distribution network:** V-Guard currently has a wide distribution network of 170 distributors, 7100 Dealers and 200 service centers in pan India. In its total revenue base of currently major part of the business come from southern states. To encash on its well established brand and quality, the company now has spread its network in North India so as to gain from this huge market for the long term objective of being a Pan India National Player.

Geographical Base	
Kerala	44%
Karnataka & Goa	22%
Tamil Nadu & Pondicherry	19%
Andhra Pradesh	12%
Maharashtra & Orissa	2%
Delhi & Haryana	1%

**Aggressive northern marketing strategies:** After gaining strong foothold in the South India market V-Guard has now focused its strategies to capture the North India Market, with a vision to be a national player in electrical and electronic segment. With its unique product mix, quality consciousness, intelligent workforce, latest technology, strong distribution and marketing channel, V-Guard will ensure that its growth story continues and that it will be able to be a Pan India player very soon. The company has started a manufacturing facility in Uttaranchal to be the base for its Northern India Expansion.

**Current market concentration**



**Focus to extend business opportunity**



**New capacities have started production** V- Guard has completed its new facility in Uttaranchal to expand the building cables business. This is one of the biggest factories in India for the production of domestic house wiring cables. The housing wires & cables is expected to contribute around Rs 1500 - 2000 Mn collectively on 100% capacity utilisation level. With plans to focus more on the building cables segment V Guard has successfully captured market share in northern sates like Punjab, Rajasthan Delhi & NCR region and some part of UP.

**INDUSTRY OVERVIEW: India’s Economic growth to increase demand for consumer durables:**

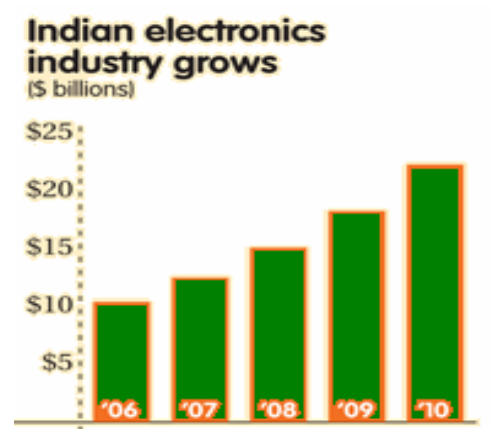
India’s economic growth is accelerating and is expected to be in the range of 8-9%. Increased spending levels have resulted in a similar rise in demand for consumer durables. This has a direct impact on the growth of Voltage Stabilizers which are considered to be a necessity in most parts of India to protect consumer appliances like TV/LCD’s, refrigerators, air conditioners etc as many regions in India face problem of poor quality power supply-Fluctuation and high voltage. Though some models of these appliances are sold with built – in - stabilizers, many consumers still prefer to employ stabilizers for complete protection. The stabilizer market in India is highly fragmented with a total market size estimated at Rs 900-1000 Cr. V-Guard is the market leader with 15% market share. Given that stabilizers contribute around 42% of V-Guard’s total revenues, the company is most likely to benefit from the growth in the consumer durables segment. Pumps and cables contribute around 20% each to the company’s total revenues. The expectation of customs duty cuts and the government’s thrust on agriculture; irrigation and rural electrification in the coming budget augur well for V-Guard’s products. Boom in construction and housing industry is likely to benefit the cables business.

**Water pump segment expected to perform well on the back of Govt support:**

Pumps being the basic equipment for every sphere of the national economy, the Indian pump industry has single handedly contributed immensely to the economic growth of the country. In terms of sectors of economy, small-size water-handling pumps cater to agriculture, domestic and village water supply; medium-size water handling pumps cater to major irrigation, urban water supply, public health and sanitation, mine-dewatering, fire-fighting, etc. Large size water-handling pumps serve cooling water circulation in power-generation. In chemical, petroleum, petrochemicals, fertilizers, etc. pumps handling process fluids are made for a host of specific applications. Indian pump industry is growing on an average of 15-18% on YoY basis. Currently the government has increased thrust on water resources management and has further enhanced agricultural insurance, fertilizer subsidies and rural finance schemes which will provide impetus to agriculture. We believe going forward the pump industry in India continue to get growth momentum from the increased activity in agriculture/ irrigation, industrial and infrastructure including water supply, power projects. While strong growth in fluid handling industry drives demand for specialized industrial pumps, the accelerated development of infrastructure and irrigation sector drives demand for pumping solutions.

Indian Electronic Industry	
	\$ in Bn
Consumer Electronics	5.6
Computers	4
Comm. & Broadcasting Ep	3.5
Industrial	3
Components	2.3
Strategic Electronics	1.5

Source: Frost & Sullivan Report



**Digital UPS segment still needs time to perform:** In India, the electric power projections depict a shortfall in power generation. Therefore, a suitable power conditioning system is needed to buffer the equipment from electric utility supply variations and fluctuations where UPS plays a vital role. The major applications in mainframes, hospitals, defence, process industry, telephone exchanges, remote microwave relays and so on, the latter largely caters to single PC users. Indian UPS market in the organized sector is rapidly growing at the pace of around 20 to 25% per annum.

The major chunk of the market comes from the SME segment, which is at around 60 to 70% of the total market. We believe India has a good potential for growth in high-end UPS models. IT enables and corporate data centers are buying high-end online UPS models. Sectors like manufacturing, telecom, and energy are also expected to make large high-end on line UPS purchases as the IT system is getting more and more sophisticated and miniaturised.

**Industry Dynamics**

Segments	Stabilizers	Cables	Pumps	Solar WH	Others
<b>Industry</b>	Industry CAGR growth expected to be 25-30% on the back of consumer durable market demand	LT & HT Cables	Target markets A) Agriculture B) Industrial Health growth rate of 12-15% in agriculture	Domestic water heating, & industrial heating, growth expected to be around 25-30%	Comprises of Electric water heaters, UPS and Fans
<b>Competition</b>	Mostly unorganized market which comprises of almost 75% of the market	Finolex cables, KEI Inds, Havells	KSB pumps, Kirloskar Brothers, Crompton Greaves	Tata BP	Unorganized market, Crompton Greaves, Numeric power, Havells
<b>Growth drivers</b>	Growing consumer durable electronic items & improper electricity supply in non metro city will lead to demand in stabilizers	20% industry growth from - (FY07-2009) Housing boom scenario	Agriculture CAGR of 22% over FY04-FY08 & expected to be same in coming 5 years down the line	Environmental concerns to drive demand from domestic and industrial sector	Erratic power supply, Industrial growth and housing demand to drive growth
<b>Key Risks</b>	Highly fragmented market with 70% - 75% contributed by the unorganized sector.	LT cables market is highly competitive with 50% contribution coming from the unorganized market.	Any shortfall in agricultural credit by the Government	-	-

Sources: Company Reports & Msearch

**FINANCIAL PERFORMANCE ANALYSIS**

For the nine months ended December 2009, VGuard has reported a 30% growth in sales, mainly on the back of healthy performance seen in the electro-mechanical division (PVC insulated and low-tension power cables, Digital UPS & fans). Currently 28% of the company's revenue comes from the cables division. V-Guard now concentrates only on the retail segment (domestic wiring for individual houses and small and mid-sized projects) for its power cable sales which gives potential visibility for coming years as healthy capex activities are going on in the core infra sectors.

Comparison of 9 Months ended 31.12.2009 Vs 9 Months ended 31.12.2008								
Segment Performance	Value In Mn			Qty Sold			Growth %	
	9M - 2010	9M - 2009	% to sales	9M - 2010	9M - 2009	% to Volume	Qty growth	Value Growth
Stabilizer	869.1	700.2	29%	867070	805058	23%	7.70%	24.12%
Pump & Motors	558.9	448.9	19%	160336	124953	4%	28.32%	24.50%
Water Heater	301.1	279.6	10%	93816	89011	2%	5.40%	7.69%
UPS	134.7	131.1	4%	78196	68751	2%	13.74%	2.75%
Digital UPS	30	1.4	1%	6882	308	0%	2134.42%	2042.86%
Solar Water Heater	121.4	114	4%	6003	5493	0%	9.28%	6.49%
Electric Fan	157.5	87.8	5%	173969	96711	5%	79.89%	79.38%
LT Cable	97.4	20	3%	1087438	201880	29%	438.66%	387.00%
Cable - Building Wires	738.8	524.1	25%	1293263	786654	34%	64.40%	40.97%

VGuard's stabilizers sales come mainly from the semi-urban regions where the demand for voltage stabilizers is still high due to frequent power outage and voltage fluctuations. Though there is a risk of the new-age electronic products with in-built stabilisers slowly penetrating into the market, the company's focus on the Tier-II and Tier-III cities and diversified product lines will help sustain sales growth over the long term.

**Raw material management would be the main key toward segment performance:** Copper, the main raw material has shown sharp price corrections in last 2 years which has impacted the company's in its operating profit, currently VGuard has a mix of average & spot buying for copper & company has successfully passed on the added cost to customers. For the 9M ended December '09, operating margins stood at 12%, up from the 9% in the same period last year while net profit grew close to 68% at Rs 193.8 Mn.

**M-view: Valuation & Outlook:** We believe VGuard is a pure play in the burgeoning Indian consumer electronic industry. We are positive on the business outlook on the voltage stabilizers, cables & pump segment to perform well. We expect topline to grow on the back of new plant, which was commissioned in mid 2009 which produces housing cable in Uttaranchal & Coimbatore with full capacity under production would help V-Guard to add around Rs. 1000 -1200 Mn yearly. The debt-to-equity ratio stands at a low 0.2, giving the company leeway to leverage for expansion plans. At the current market price, the stock trades at 10x its FY 10E earnings of Rs 8.34 and 6.6x to its FY 11E earnings for Rs 12.49. We expect volume growth to contribute to strong revenues, helping sustain profitable growth. V-Guard looks reasonably well set in its segment because of its brand loyalty they have retained in the south Indian states. Now main focus is to penetrate the North Indian markets by adopting new strategies and also on increasing sales from exports. Comparable peers in both cables & consumer durables trade at 13-18 times. Hence, we recommend investors to buy with a medium-to-long term horizon.

PEER COMPARISON

Particulars	V Guard	Finolex Cables	Havells India
Net Sales	3120	11577.6	17791.8
EBIDTA Margins %	12.0%	14.0%	13.0%
PAT Margins %	6.2%	5.4%	9.1%
Lat.Eqty (Rs Mn)	298.48	305.9	300.8
EPS Rs	6.5	4.12	26.99
CMP	80	50	545
P/BV	1.9	1.28	3.5
PE (x)	9.6	12	15.3
ROCE %	20.46	8.94	22.52
ROE %	14.2	6.3	18.14
Market Cap (Mn) As on Feb 25 <sup>th</sup> , 2010	2388	7692	32481

FINANCIALS

Particulars	Mar-08	Mar-09	Mar -10E	Mar -11E	Mar -12E
Net Sales	2780.1	3167.8	4171.5	6061.4	8159.7
<b>YoY Growth</b>	<b>25%</b>	<b>14%</b>	<b>32%</b>	<b>45%</b>	<b>35%</b>
EXPENDITURE :					
<b>Total Expenditure</b>	<b>2476.75</b>	<b>2850.11</b>	<b>3695.5</b>	<b>5360.5</b>	<b>7209.6</b>
<b>EBIDTA</b>	<b>303.36</b>	<b>317.66</b>	<b>476.0</b>	<b>700.8</b>	<b>950.0</b>
<b>EBIDTA Margin</b>	<b>10.9%</b>	<b>10.0%</b>	<b>11.4%</b>	<b>11.6%</b>	<b>11.6%</b>
<b>YoY Growth</b>	<b>14%</b>	<b>5%</b>	<b>50%</b>	<b>47%</b>	<b>36%</b>
Interest	51	50.77	54.2	72.7	97.9
PBDT	252.36	266.89	421.8	628.1	852.1
Depreciation	34.65	40.49	58.4	78.8	106.1
Profit Before Tax	524.36	262.8	373.40	559.30	756.04
Tax %	29%	34%	33%	33%	33%
Provision for Tax	150.11	89.33	124.45	186.42	251.99
<b>Profit After Tax</b>	<b>374.25</b>	<b>173.47</b>	<b>248.94</b>	<b>372.89</b>	<b>504.05</b>
<b>PAT Margin</b>	<b>13.5%</b>	<b>5.5%</b>	<b>5.97%</b>	<b>6.15%</b>	<b>6.18%</b>
<b>YoY Growth</b>	<b>105%</b>	<b>-54%</b>	<b>44%</b>	<b>50%</b>	<b>35%</b>
<b>Equity</b>	<b>298.5</b>	<b>298.5</b>	<b>298.5</b>	<b>298.5</b>	<b>298.5</b>
<b>Face Value</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>EPS</b>	<b>12.54</b>	<b>5.81</b>	<b>8.34</b>	<b>12.49</b>	<b>16.89</b>
<b>PE (x)</b>			<b>9.6</b>	<b>6.4</b>	<b>4.7</b>
<b>CMP</b>			<b>80</b>		
<b>Market Cap</b>			<b>2388</b>		
<b>Price to Book Value</b>			<b>1.9</b>		



February, 2010

Mehta Equities Limited - INDIA. A Member of Stock Exchange, Mumbai.  
 Contact: Prashanth Tapse / Madhusudan Sarda in Equity Research Department,  
 Mehta Group, 612, Arun Chamber, Near A.C.Market Tardeo, Mumbai -400034.  
 Tel.: 91-22-4007 0100. Fax: 91-22-40070102

Web Site: www.mehtagroup.in, E-mail: madhu@mehtagroup.in, prashanth.tapse@mehtagroup.in

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