

RESULTS

REVIEW

# V-Guard Industries Ltd.

Beating estimates; growth momentum to continue

BUY

Analyst

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Nifty: 5,697; Sensex: 19,008

CMP	Rs181
Target Price	Rs208
Potential Upside/Downside	+15%

## Key Stock Data

Sector	Capital Goods
Bloomberg / Reuters	VGRD IN / VGUA.BO
Shares o/s (mn)	29.8
Market cap. (Rs mn)	5,389
Market cap. (US\$ mn)	118
3-m daily average vol.	37,513

## Price Performance

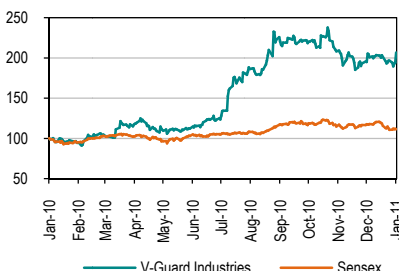
52-week high/low	Rs216/79
	-1m -3m -12m
Absolute (%)	6 (6) 107
Rel to Sensex (%)	11 0 95

## Shareholding Pattern\* (%)

Promoters	67.4
FII/IRIs/OCBs/GDR	2.3
MFs/Banks/FIs	6.2
Non Promoter Corporate	2.6
Public & Others	21.5

\* As of 30-Sep-10

## Relative to Sensex



Source: Capitaline

## Summary

V-Guard Industries posted top line growth of 48% YoY and bottom line growth of 63% YoY for Q3FY11, ahead of our estimates. We continue to remain positive on the company and have upgraded our rating on the stock from ACCMULATE to BUY due to the recent stock price correction. Maintain our price target of Rs208 (12x FY12E).

## Result highlights

### ■ Top line growth of 48% YoY, ahead of our estimates

V-Guard reported top line growth of 48% YoY, better than our estimates, led by increased turnover from cables segment. Top line growth was led by robust performance across all product categories. For 9mFY11 top line growth was 62% YoY, with all product categories except solar water heaters growing over 37%.

### ■ Operating profit margins at ~9.3%; lower than estimates

OPM at 9.3% in Q3FY11 was lower than our estimates owing to higher than anticipated advertisement expenditure. Also, some additional discounts were given during the quarter to drive turnover. The management has stated that the guidance of Rs240 mn on advertisement spend for FY11 holds and Q4FY11 will see a lower ad spend. The management has indicated that in Q4FY11 the OPM will increase due to better product mix and removal of additional discounts given during Q3FY11. For FY12, the management has guided that it will be able to hold its OPM of ~10-11%.

### ■ PAT growth of 63% YoY led by higher turnover and increased margins

V-Guard's PAT growth at 63% YoY for the quarter was better than our estimates. For 9mFY11, it reported a PAT growth of 47%. Interest cost was up 89% YoY due to built up of inventory for the coming quarters as well as lower than anticipated turnover from pumps segment due to continued rains.

### ■ Increasing estimates for FY11 and FY12

We are increasing our FY11 and FY12 top line estimates by ~7% and ~5% respectively, but are cutting our OPM estimate by ~20bps and ~50bps for FY11 and FY12 to factor higher raw material prices. Our PAT estimate for FY11 has been enhanced by ~7% to account for better than expected top line growth. However, for FY12 we are maintaining our PAT estimates despite top line increase, conservatively factoring higher raw material prices.

## Outlook and valuation

V-Guard Industries results have been better than our estimates. It currently trades at a PER and EV/EBITDA of 10.4x and 6.7x on our FY12E, respectively. We continue to be positive on the growth prospects of the company and the space in which it operates. We upgrade our rating from ACCMULATE to BUY led by the recent stock price correction. Maintain our target price of Rs208 (PER of 12x FY12).

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY09	3,168	314	9.9	173	5.8	31.1	17.9	14.2	13.0
FY10	4,541	504	11.1	255	8.5	21.2	12.2	19.0	15.0
FY11E	6,927	728	10.5	386	12.9	14.0	8.6	24.8	17.8
FY12E	9,021	930	10.3	518	17.4	10.4	6.7	27.3	19.8

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs mn)

Particulars	Q3FY10	Q3FY11	YoY (%)	9MFY10	9MFY11	YoY (%)
Net sales	1,197	1,769	48	3,120	5,039	62
EBITDA	111.3	164	47	372.9	536	44
EBITDA margin (%)	9.3	9.3		12.0	10.6	
Other income	3	4	60	8	10	28
Interest	16	29	89	31	77	146
Depreciation	19	20	6	49	59	20
Profit/(loss) before tax	80	119	49	301	410	36
Tax	27.1	33.4	23	106.6	126.0	18
Tax rate (%)	34.0	28.1		35.5	30.7	
Net profit	53	85	63	194	284	47
Adj. Net Profit	53	85	63	194	284	47

Source: Company; IDBI Capital Research

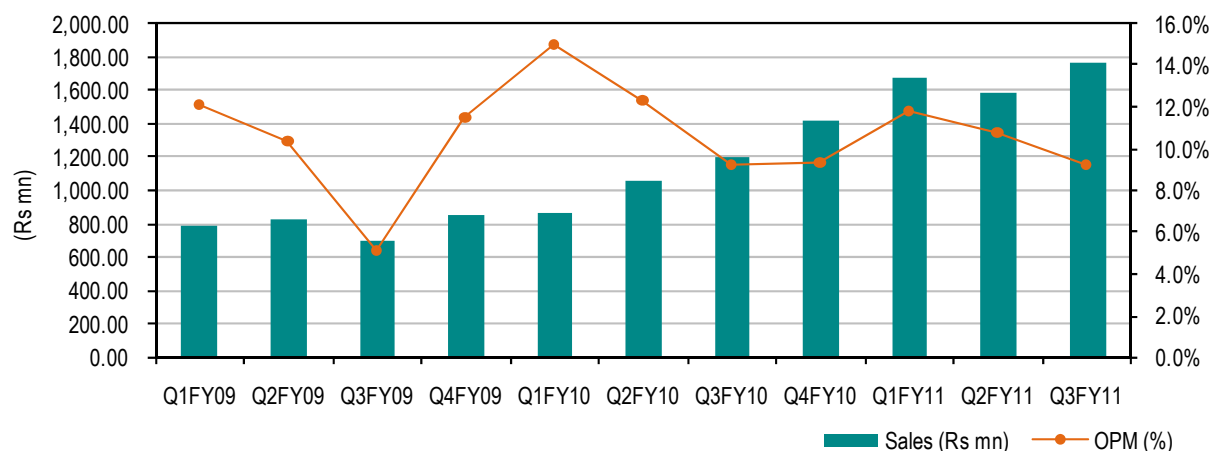
Table: Product wise break up

(Rs mn)

Products	Q3FY10	Q3FY11	YoY (%)	9MFY10	9MFY11	YoY (%)
Stabilizer	286	352	23	871	1198	37
Pump	192	240	25	557	769	38
Cable	326	522	60	804	1422	77
L.T Cable	54	116	114	91	276	205
Water Heater	156	257	65	307	511	66
Solar Water Heater	55	70	28	122	155	27
UPS	42	67	59	135	213	58
FAN	55	98	76	159	323	104
DUPS	17	33	100	40	133	237
Others	13	13	4	34	38	13
<b>Total</b>	<b>1,196</b>	<b>1,768</b>	<b>48</b>	<b>3,118</b>	<b>5,038</b>	<b>62</b>

Source: Company; IDBI Capital Research

Figure: Topline and OPM



Source: Company; IDBI Capital Research

## Financial summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E
<b>Net sales</b>	<b>3,168</b>	<b>4,541</b>	<b>6,927</b>	<b>9,021</b>
Growth (%)	13.9	43.3	52.5	30.2
Operating expenses	(2,853)	(4,037)	(6,199)	(8,091)
<b>EBITDA</b>	<b>314</b>	<b>504</b>	<b>728</b>	<b>930</b>
Growth (%)	5.3	60.4	44.4	27.8
Depreciation	(40)	(71)	(86)	(89)
<b>EBIT</b>	<b>274</b>	<b>433</b>	<b>642</b>	<b>841</b>
Interest paid	(47)	(51)	(86)	(87)
Other income	36	14	11	19
<b>Pre-tax profit</b>	<b>263</b>	<b>395</b>	<b>567</b>	<b>773</b>
Tax	(89)	(140)	(182)	(255)
Effective tax rate (%)	34.0	35.5	32.0	33.0
<b>Net profit</b>	<b>173</b>	<b>255</b>	<b>386</b>	<b>518</b>
<b>Adjusted net profit</b>	<b>173</b>	<b>255</b>	<b>386</b>	<b>518</b>
Growth (%)	124.8	46.8	51.5	34.2
Shares o/s (mn nos)	30	30	30	30

### Balance Sheet

(Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E
Net fixed assets	971	1,152	1,172	1,078
Investments	114	46	46	46
Other non-current assets	-	-	-	-
<b>Current assets</b>	<b>951</b>	<b>1,904</b>	<b>2,480</b>	<b>3,221</b>
Inventories	359	985	1,139	1,458
Sundry Debtors	488	756	1,120	1,434
Cash and Bank	41	74	89	156
Loans and advances	63	89	133	173
<b>Total assets</b>	<b>2,035</b>	<b>3,102</b>	<b>3,698</b>	<b>4,344</b>
Shareholders' funds	1,265	1,415	1,696	2,092
Share capital	298	298	298	298
Reserves & surplus	966	1,116	1,397	1,793
<b>Total Debt</b>	<b>263</b>	<b>805</b>	<b>956</b>	<b>956</b>
Secured loans	34	56	56	56
Unsecured loans	229	749	900	900
Other liabilities	307	862	1,013	1,013
<b>Curr Liab &amp; prov</b>	<b>463</b>	<b>824</b>	<b>989</b>	<b>1,240</b>
Current liabilities	463	824	989	1,240
Provisions	-	-	-	-
<b>Total liabilities</b>	<b>770</b>	<b>1,687</b>	<b>2,002</b>	<b>2,253</b>
<b>Total equity &amp; liabilities</b>	<b>2,035</b>	<b>3,102</b>	<b>3,698</b>	<b>4,344</b>
<b>Book Value (Rs)</b>	<b>42</b>	<b>47</b>	<b>57</b>	<b>70</b>

Source: Company; IDBI Capital Research

### Cash Flow Statement

(Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E
Pre-tax profit	263	395	567	773
Depreciation	36	68	86	89
Tax paid	(313)	(123)	(181)	(253)
Chg in working capital	230	(578)	(397)	(440)
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>216</b>	<b>(239)</b>	<b>75</b>	<b>170</b>
Capital expenditure	(413)	(249)	(106)	5
Chg in investments	36	68	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(377)</b>	<b>(181)</b>	<b>(106)</b>	<b>5</b>
Equity raised / (repaid)	-	-	-	-
Debt raised / (repaid)	(97)	543	151	-
Dividend (incl. tax)	(87)	(89)	(105)	(107)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(184)</b>	<b>453</b>	<b>46</b>	<b>(107)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(345)</b>	<b>33</b>	<b>15</b>	<b>67</b>

### Financial Ratios

Year-end: March	FY09	FY10	FY11E	FY12E
Adj. EPS (Rs)	5.8	8.5	12.9	17.4
Adj. EPS growth (%)	124.8	46.8	51.5	34.2
EBITDA margin (%)	9.9	11.1	10.5	10.3
Pre-tax margin (%)	8.3	8.7	8.2	8.6
ROE (%)	14.2	19.0	24.8	27.3
ROCE (%)	13.0	15.0	17.8	19.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.5	1.8	2.0	2.2
Leverage factor (x)	1.7	1.9	2.2	2.1
Net margin (%)	5.5	5.6	5.6	5.7
Net Debt / Equity (x)	0.2	0.5	0.5	0.4
<b>Working Capital &amp; Liquidity ratios</b>				
Inventory days	41.3	79.2	60.0	59.0
Receivable days	56.2	60.8	59.0	58.0
Payable days	21.8	27.1	23.5	22.3

### Valuation

Year-end: March	FY09	FY10	FY11E	FY12E
PER (x)	31.1	21.2	14.0	10.4
Price / Book value (x)	4.3	3.8	3.2	2.6
PCE (x)	25.2	16.5	11.4	8.9
EV / Net sales (x)	1.8	1.3	0.9	0.7
EV / EBITDA (x)	17.9	12.2	8.6	6.7
Dividend Yield (%)	1.4	1.7	1.7	1.9



# Notes

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## Key to Ratings

### Stocks:

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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