

## ROAD SHOW

## UPDATE

## V-Guard Industries Ltd.

## Management re-iterates growth momentum

BUY

## Analyst

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Nifty: 5,149; Sensex: 16,991

CMP	Rs 234
Target Price	Rs266
Potential Upside/Downside	+14%

## Key Stock Data

Sector	Capital Goods
Bloomberg / Reuters	VGRD IN / VGUA.BO
Shares o/s (mn)	30
Market cap. (Rs mn)	7,020
Market cap. (US\$ mn)	123
3-m daily average vol.	16,144

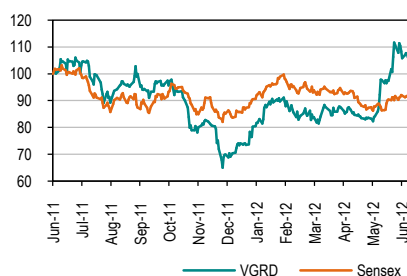
## Price Performance

52-week high/low	Rs260/141		
	-1m	-3m	-12m
Absolute (%)	23	30	6
Rel to Sensex (%)	20	31	14

## Shareholding Pattern (%)

Promoters	67.4
FII/IRIs/OCBs/GDR	8.5
MFs/Banks/FIs	2.2
Non Promoter Corporate	2.1
Public & Others	19.8

## Relative to Sensex



We hosted a two day road show with the management of V-guard Industries. Key take away from the meetings were:

- **Management re-iterates 25% growth in revenues during FY13**

V-Guard management has re-iterated guidance of 25% growth in revenues in FY13. Growth will come from across product categories. Management has indicated Non-South markets will grow at a higher pace as compared to the South markets in FY13. During Apr-May, 2012 it has witnessed descent growth which has further given it confidence to achieve its yearly guidance.

- **OPM to be maintained at ~10% for FY13**

The management has maintained its guidance of ~10% OPM for FY13. It had taken price hikes in March, 2012 (~3%) which will ensure margin maintenance. Also, as the company derives only ~6% of its revenues from imported products, it will not get significantly impacted due to the rupee depreciation and thus maintain its margins.

- **Non-South India to contribute ~40% of revenues over next 4-5 years**

V-Guard's is looking to derive ~40% of its revenues from Non-South India markets over the next 4-5 years. It believes this can be achieved by increasing its dealer network and launching complete range of products in these geographies. Also, it is enhancing its team strength in these geographies which will enable it to further penetrate these markets

- **New product launched in FY12 to do meaningful contribution only in next 4-5 years**

V-Guard has launched induction cooktops and domestic switchgears in Kerala during FY12. The company plans to do a pan South India launch over the next 18-24 months. It also plans to introduce mixer-grinders by CY12. The management believes it will be able to leverage its brand and service capabilities to be able to enter the kitchen appliance market. It targets revenues of Rs 1bn from these businesses over the next 4-5 years. Manufacturing of all these products will be outsourced.

- **Production: Outsourcing mix to remain similar**

V-Guard manufactures its requirement of cables, LT cables and solar water heaters (SWH) in-house. It also manufactures ~10% of its pumps, fans and electric water heaters requirement. The other products such as stabilizers, UPS, DUPS are completely outsourced. On a blended basis, it manufactures ~40% of its sales. Management believes this ratio of manufacturing to outsourcing will continue to remain similar going ahead too.

- **Working Capital cycle to reduce further**

V-Guard is trying to reduce its working capital days by ~15-20 days in FY13. It will do so by engaging in supplier financing (similar to its peers such as Bajaj Electricals and Havells India). By engaging in supplier financing it will reduce its working capital requirement and thus generate free cash flows. Going ahead, the management expects to get ~60-70% of its supplier under this scheme.

- **Outlook and valuation**

V-Guard has been delivering robust growth over many years and now with increased focus on improving working capital; we believe its growth will be qualitative too. V-Guard is currently trading at a PER and EV/EBIDTA of 9.7x and 6.5x FY14E which is attractive given an earning CAGR of 19% during FY12-14. We continue to remain positive on the growth prospects of the company and the space in which it operates. Maintain **BUY** and price target of Rs266 (11x FY14E).

## Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	7,263	730	10.1	390	13.1	17.9	11.4	24.9	23.9
FY12	9,936	935	9.4	508	17.0	13.8	9.1	26.6	24.5
FY13E	12,422	1,128	9.1	608	20.4	11.5	7.6	26.0	25.4
FY14E	14,934	1,344	9.0	723	24.2	9.7	6.5	25.4	26.0

Source: Company; IDBI Capital Research

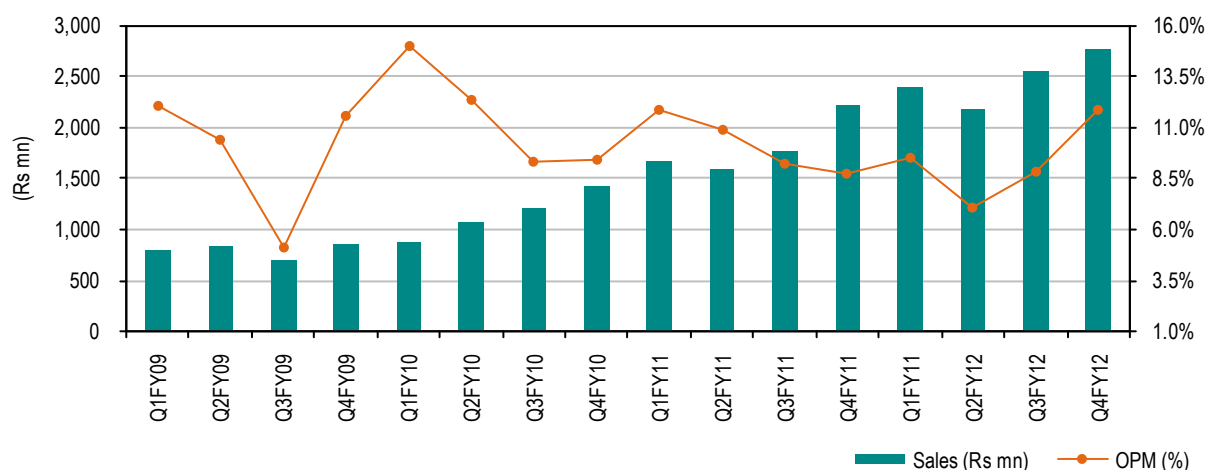
**Table: Product-wise break up**

(Rs mn)

Products	FY11	FY12	Growth (%)
Wires	2,060.5	2,779.1	35
Stabilizer	1,667.4	2006.5	20
Pump	1,211.8	1,515.2	25
L.T Cable	410.5	569.6	39
Water Heater	600.3	862.5	44
Solar Water Heater	213.4	256.5	20
UPS	272.0	420.6	55
FAN	532.2	637.0	20
DUPS	216.1	726.7	236
Others	48.9	91.8	88
<b>Total</b>	<b>7,233</b>	<b>9,866</b>	<b>36</b>

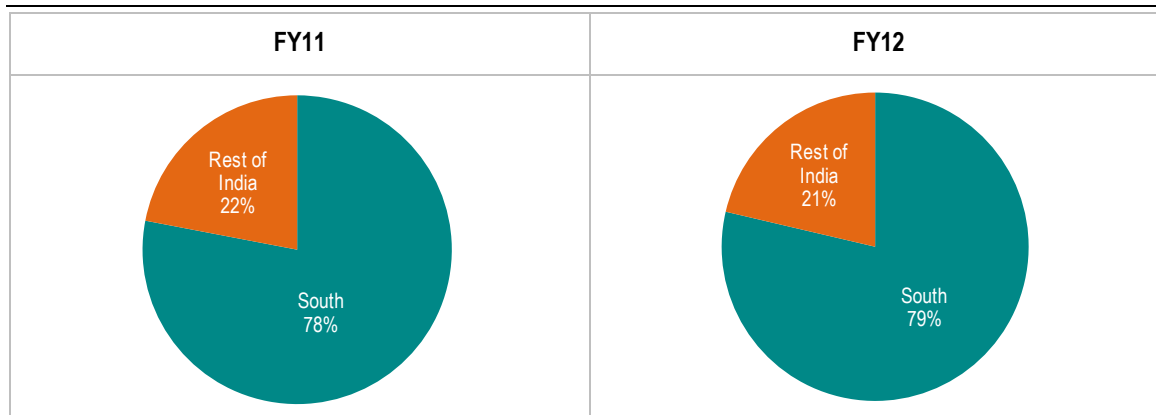
Source: Company; IDBI Capital Research

**Figure: Quarterly Topline and OPM**



Source: Company; IDBI Capital Research

**Figure: Region-wise revenue (%)**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
<b>Net sales</b>	<b>7,263</b>	<b>9,936</b>	<b>12,422</b>	<b>14,934</b>
Growth (%)	60.0	36.8	25.0	20.2
Operating expenses	(6,533)	(9,001)	(11,294)	(13,590)
<b>EBITDA</b>	<b>730</b>	<b>935</b>	<b>1,128</b>	<b>1,344</b>
Growth (%)	44.9	28.1	20.6	19.1
Depreciation	(79)	(97)	(112)	(127)
<b>EBIT</b>	<b>651</b>	<b>838</b>	<b>1,016</b>	<b>1,217</b>
Interest paid	(113)	(170)	(196)	(225)
Other income	17	24	24	26
<b>Pre-tax profit</b>	<b>591</b>	<b>692</b>	<b>844</b>	<b>1,018</b>
Tax	(165)	(184)	(236)	(295)
Effective tax rate (%)	27.9	26.6	28.0	29.0
<b>Net profit</b>	<b>426</b>	<b>508</b>	<b>608</b>	<b>723</b>
<b>Adjusted net profit</b>	<b>390</b>	<b>508</b>	<b>608</b>	<b>723</b>
Growth (%)	53.1	30.3	19.6	18.9
Shares o/s (mn nos)	30	30	30	30

### Balance Sheet

(Rs mn)

Year-end: March	FY11	FY12E	FY13E	FY14E
Net fixed assets	1,158	1,341	1,479	1,602
Investments	-	-	-	-
Other non-curr assets	-	-	-	-
<b>Current assets</b>	<b>2,892</b>	<b>3,365</b>	<b>4,306</b>	<b>5,198</b>
Inventories	1,424	1,574	2,076	2,496
Sundry Debtors	1,231	1,478	1,872	2,250
Cash and Bank	71	34	74	110
Loans and advances	166	279	284	342
<b>Total assets</b>	<b>4,050</b>	<b>4,707</b>	<b>5,786</b>	<b>6,800</b>
<b>Shareholders' funds</b>	<b>1,720</b>	<b>2,106</b>	<b>2,574</b>	<b>3,123</b>
Share capital	298	298	298	298
Reserves & surplus	1,421	1,808	2,276	2,824
<b>Total Debt</b>	<b>1,398</b>	<b>1,519</b>	<b>1,706</b>	<b>1,876</b>
Secured loans	26	230	56	56
Unsecured loans	1,372	1,288	1,650	1,820
Other liabilities	61	43	43	43
<b>Curr Liab &amp; prov</b>	<b>871</b>	<b>1,039</b>	<b>1,463</b>	<b>1,759</b>
Current liabilities	830	1,015	1,439	1,736
Provisions	41	23	23	23
<b>Total liabilities</b>	<b>2,330</b>	<b>2,600</b>	<b>3,211</b>	<b>3,678</b>
<b>Total equity &amp; liabilities</b>	<b>4,050</b>	<b>4,707</b>	<b>5,786</b>	<b>6,800</b>
<b>Book Value (Rs)</b>	<b>58</b>	<b>71</b>	<b>86</b>	<b>105</b>

Source: Company; IDBI Capital Research

### Cash Flow Statement

(Rs mn)

Year-end: March	FY11	FY12E	FY13E	FY14E
Pre-tax profit	591	692	844	1,018
Depreciation	68	97	112	127
Tax paid	(165)	(196)	(233)	(290)
Chg in working capital	(955)	(349)	(495)	(594)
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>(461)</b>	<b>244</b>	<b>228</b>	<b>261</b>
Capital expenditure	(74)	(280)	(250)	(250)
Chg in investments	46	-	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(28)</b>	<b>(280)</b>	<b>(250)</b>	<b>(250)</b>
Equity raised / (repaid)	-	-	-	-
Debt raised / (repaid)	593	121	187	170
Dividend (incl. tax)	(106)	(121)	(125)	(145)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>486</b>	<b>(0)</b>	<b>62</b>	<b>25</b>
<b>Net chg in cash (a+b+c)</b>	<b>(3)</b>	<b>(37)</b>	<b>41</b>	<b>36</b>

### Financial Ratios

Year-end: March	FY11	FY12	FY13E	FY14E
Adj. EPS (Rs)	13.1	17.0	20.4	24.2
Adj. EPS growth (%)	53.1	30.3	19.6	18.9
EBITDA margin (%)	10.1	9.4	9.1	9.0
Pre-tax margin (%)	8.1	7.0	6.8	6.8
ROE (%)	24.9	26.6	26.0	25.4
ROCE (%)	23.9	24.5	25.4	26.0
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	2.0	2.3	2.4	2.4
Leverage factor (x)	2.3	2.3	2.2	2.2
Net margin (%)	5.4	5.1	4.9	4.8
Net Debt / Equity (x)	0.8	0.7	0.6	0.6
<b>Working Capital &amp; Liquidity ratios</b>				
Inventory days	72	58	61	61
Receivable days	62	54	55	55
Payable days	24	40	40	40

### Valuation

Year-end: March	FY11	FY12	FY13E	FY14E
PER (x)	17.9	13.8	11.5	9.7
Price / Book value (x)	4.1	3.3	2.7	2.2
PCE (x)	14.9	11.6	9.7	8.2
EV / Net sales (x)	1.1	0.9	0.7	0.6
EV / EBITDA (x)	11.4	9.1	7.6	6.5
Dividend Yield (%)	1.5	1.5	1.7	2.1



# 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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