



COMPANY NAME : **V-Guard Industries**

BSE Code : **532953**

Time Duration : **1 year**

CMP : **₹218 (as on 20 Mar., 2019)**

Target Price : **₹283**

The Mid Bridge recommendation for this month is V-Guard Industries. The company is engaged in the business of manufacturing and selling of electronic products, electricals and consumer durables. It has a wide range of products such as stabilizers, digital UPS, solar inverters, housing cables, pumps, solar water heaters, fans, air coolers and kitchen appliances. It is a prominent player in southern India with market leadership in stabilizer market.

Strategic business model

V-Guard operates on asset-light business model. It has mix of in-house production and outsourcing products. This model enables it to optimise capex and working capital. This model further helps in ensuring stringent quality, design and control over both, in-house as well as outsourced products. This model also further gives company complete control over the supply chain. As of FY18, it has 58 per cent products being outsourced, while the remaining products from in-house production units. The company's manufacturing plants are located in strategic locations such as Uttaranchal and Himachal Pradesh in northern parts of India and Tamil Nadu in the South. The other parts are covered by outsourced units, which creates a large pan-India presence. The presence of its manufacturing units across India drives its strong channel network across the country. As of Q3FY19, the company had 30 branches along with network of 30,000 retailers covering major consumer base. The number of retailers have risen from 25,000 in FY14 at CAGR of 3.71%.

Multi-product brand

V-Guard is a famous brand across the country, especially in South India. Further, its product portfolio drives its growth by offering multiple products that cater to the needs of varied customers. Its product range is well-diversified and the housing cables and wires segment leads with 28% revenue contribution. Other products such as stabilizers, UPS, pumps, water heaters, fans contribute 17.8%, 12.6%, 10.2%, 15% and 8.6%, respectively. In the recent past, V-Guard expanded its portfolio to kitchen appliances, switchgears, modular switches and air coolers. New products collectively contributed 7% of total revenues till December 2018.

Non-South region adds quantum

The company has a four-decade long presence in southern India. Here, the company is already a market leader. But the company has expanded its presence in other parts of the country too. Strong distribution network and production units spread across the country has helped it in many ways. As of end of third quarter of FY19, non-South revenue contributed 40% to the total revenues, which grew from 30% in FY14. The non-South regions' revenue recorded growth of 19.1% during the first nine months of FY19 over the same period of the last fiscal.

Focus on brand expansion

The company plans to expand its presence in non-South region in India, and for this, it has to increase its brand value in the region. Increasing brand presence and acceptance will be the key driver going ahead. As of FY18, the company spent Rs 153 crore, which was 6.6% of the annual sales in FY18.

Financial Performance

The company's consolidated revenues grew at CAGR of 10.12%. After the slowdown in demand due to major events such as demonetisation and implementation of GST, the growth rate of 10.12% shows strength of distribution network and brand value of the company. The company has significantly reduced its debt over the years. The total debt that the company owed at the end of first-half of FY19 was Rs 10 crore (classified as short term liability), as against Rs 99.19 crore as of FY14. The reduction in debt is expected to boost the overall profits over the next few quarters. At the operational level, the company has maintained margins in the range of 8% to 10% over a span of last six financial years. The rise in outsourced product mix has helped the company reduce its direct costs which resulted in stable margins.

Summer to 'heat' up demand

The upcoming summer months can be expected to heat up the demand for fans, pumps, solar water heaters and air coolers. These products have historically strong demand in this season

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every year. But with growing distribution network of the company, the seasonal demand is likely to benefit the company this year more than the last two quarters. Further, the company outsources manufacturing of 90% of the fans. This enables the company to garner more market share by increasing availability of its products.

Rise in retailer network

The management has aggressive plans of adding 3000 to 5000 retailers across the country every year over the next five years. The major focus will also be on higher number of retailers in non-South region. Retailers in northern region will enable the company to gain market share for its products such water heaters where the overall temperature is low as compared to other parts of the country.

Growth prospects

Being prominent player in the southern region, floods in Kerala created short term issues with regards to sales. But we expect

the revival work being carried out in the state will directly benefit V- Guard. The replacement of products such as electrical wires, pumps, stabilizers may have positive effect. Further, the summer season can give boost to the demand for pumps, along with fans and air coolers.

Valuation and Outlook

The stock is currently trading at TTM EPS of Rs. 3.14 and TTM PE multiple of 69.70x. The demand for replacement of products in Kerala and the seasonal demand for products such as fans and air coolers in non-South region will be the key drivers for strong topline growth. We expect at least 15% growth in revenues for FY19E. Capitalizing on its asset-light model and reduction in key raw material prices such as copper (in wire business), margins can be expected to be stable within the range of 8% to 10%. On the debt front, the company is positioned strongly. It has net short borrowing equal to Rs 10 crore. Hence, with an estimated strong revenue growth, stable margins and lower leverage, we expect the company to deliver robust performance in the stock price and recommend a **BUY** for target price of Rs. 283.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	2311.74	2085.64	1862.28	1745.92	1517.56
Total Income	2322.85	2099.10	1869.51	1750.41	1522.40
Total Expenditure	2124.80	1877.03	1684.27	1612.91	1395.02
PBIDT	198.05	222.07	185.24	137.50	127.38
PAT	133.09	144.62	111.68	70.72	70.13
Dividend %	70.00	70.00	70.00	45.00	45.00
Adj. EPS(Rs)	3.13	3.41	2.65	1.69	1.68

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201812	201809	Q on Q Var%	201712	Y on Y Var%
Net Sales	594.27	597.58	-0.55	529.68	12.19
Total Expenditure	549.32	547.73	0.29	480.28	14.37
PBIDT (Excl OI)	44.96	49.85	-9.81	49.40	-9.00
PAT	33.70	38.18	-11.74	35.76	-5.77
PBIDTM% (Excl OI)	7.57	8.34	-9.23	9.33	-18.86
PBIDTM%	8.30	9.00	-7.78	9.81	-15.39
PATM%	5.67	6.39	-11.27	6.75	-16.00
Adj. EPS(Rs)	0.79	0.90	-12.22	0.84	-5.95

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