

V-Guard Industries

3 June 2020

Reuters: VGUA.BO; Bloomberg: VGRD IN

COVID-19 dents sales growth and operating margin

V-Guard Industries (VIL) posted revenue of Rs5.4bn in 4QFY20, down 28% YoY, 21%/26% below our/consensus estimates as lockdown in March led to Rs2.5bn loss of sales. Revenue from South region fell 31% YoY to Rs3.2bn (60% of total sales), while Non-south region fell 21% YoY to Rs2.2bn (40% of total sales). Revenue of Electronics/Electricals/Consumer Durables segments fell 27%/32%/20% YoY to Rs1.5bn/Rs2.4bn/Rs1.4bn. Gross margin jumped 370bps YoY to 33.3% (but flat QoQ), led by premiumisation of product portfolio and pricing actions. EBITDA fell 42% YoY to Rs452mn, leading to an operating margin of 8.4%, down 220bps YoY, below our/consensus estimate of 9.2%/9.9%. Consequently, PAT declined 45% YoY to Rs325mn, below our/consensus estimate of Rs443mn/Rs531mn. VIL has resumed operations at its warehouses (with 25%-35% capacity) and has started two manufacturing plants of wires (at 30% capacity). Other plants will be started once the demand picks up and unsold inventory gets depleted. Factoring in the COVID-19 challenges, we have cut our earnings estimates and downgraded the rating on stock to Accumulate (from Buy) with a revised target price of Rs190 (Rs205 earlier) based on 38x FY22E EPS.

Lockdown affects revenue growth: VIL's revenue fell 28%/3% YoY to Rs5.4bn/Rs24.8bn for 4Q/FY20, respectively. In March 2020, VIL lost Rs2.5bn worth of sales due to lockdown as trade channels could not pick up inventory (mainly in Non-south region where VIL is not a leading brand). Revenue from the South region fell 6% YoY to Rs14.8bn in FY20 while the Non-south region sales was flat YoY at Rs10bn (40% of total sales, highest share till date). Electrical segment (Wires, Pumps and Switchgears) revenue fell 7% YoY to Rs10.5bn (43% of total sales) in FY20. Electronics segment (Stabilizers and Inverters) sales were flat YoY at Rs7.5bn (30% of total sales) in FY20. Consumer Durables segment's (Water Heaters, Fans, Kitchen Appliances and Air Coolers) revenue was flat YoY at Rs6.7bn (27% of total sales) in FY20. Lockdown situation eased in varying markets in May 2020, while consumer demand has remained subdued. VIL's operations have resumed in May with warehouses working at 25%-35% capacity while two manufacturing plants (of wires) are operating at 30% capacity. 50%-60% of retail touch points have opened and are seeing good traction. Primary sales in May 2020 were at 70% of the sales in May 2019, while even secondary sales at retailers were higher, positively surprising VIL. Collections from receivables was even better. For South region, sales were better in Karnataka, Andhra Pradesh and Tamil Nadu (barring Chennai), while for Non-south region, it was better in Eastern states of Odisha and Bihar. Sales are witnessing better traction in rural areas, Tier 3/4 towns and suburban areas of large cities (85%-90% of total sales) compared to metro cities (15% of total sales). Sales at small electrical counters (selling products such as Wires, Switches and Fans) are recovering faster than consumer durables counters (selling products such as Kitchen Appliances, Stabilizers and Water Heaters) located in metro and Tier 1 cities. AC stabiliser sales have picked up in North (due to heat wave) while the sales are unlikely to be recovered in South (due to onset of monsoon).

Gross margin healthy, operating margin declines: Gross margin jumped 370bps/330bps YoY to 33.3%/33.2% in 4Q/FY20, led by premiumisation and price hikes. Gross margin difference between South and Non-south region is 1.5%. Gross margin for Fans and Water Heaters will rise once the new plants start which will improve insourcing. EBITDA margin fell 220bps YoY to 8.4% in 4QFY20 due to lower turnover and lack of operating leverage. EBIT margin of the Electronics/Electrical/Consumer Durables segments fell 70bps/190bps/410bps YoY to 14.1%/7.9%/2.5%. In FY20, EBITDA margin was up 170bps YoY to 10.2% on a low base.

Working capital position: Net working capital cycle increased to 86 days as on FY20 from 68 days YoY due to rise in unsold inventory (at 105 days v/s 75 days YoY). However, VIL expects to liquidate this inventory over the next two months without any price cuts. Trade channel has 40 days of inventory (vs. 21-30 days normally). Cash flow from operations stood at Rs1.4bn in FY20 (v/s Rs1.5bn YoY). Capex for FY21E will be lower at Rs350mn-Rs400mn (v/s 900mnYoY).

Outlook: Revenue/earnings CAGR over FY20-FY22E will be softer at 5%/7% due to COVID-19 challenges. Long term growth prospects and healthy cash flow/return ratios/fixed-asset turnover will support VIL's valuation.

ACCUMULATE

Sector: Consumer Electricals

CMP: Rs180

Target Price: Rs190

Upside: 6%

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Key Data

Current Shares O/S (mn)	428.3
Mkt Cap (Rsbn/US\$bn)	77.2/1.0
52 Wk H / L (Rs)	260/149
Daily Vol. (3M NSE Avg.)	478,699

Price Performance (%)

	1 M	6 M	1 Yr
V-Guard Ind.	2.0	(22.4)	(25.7)
Nifty Index	1.2	(17.2)	(16.3)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net revenues	7,397	6,266	5,366	(27.5)	(14.4)	25,664	24,820	(3.3)
Raw material costs	5,208	4,186	3,578	(31.3)	(14.5)	17,992	16,582	(7.8)
Staff costs	525	584	432	(17.9)	(26.1)	2,020	2,068	2.4
Other expenses	882	902	906	2.7	0.4	3,458	3,637	5.2
Total expenditure	6,615	5,672	4,915	(25.7)	(13.4)	23,470	22,287	(5.0)
EBITDA	781	594	452	(42.2)	(24.0)	2,194	2,533	15.4
EBITDA margin (%)	10.6	9.5	8.4	-	-	8.5	10.2	-
Depreciation	55	73	71	27.8	(3.3)	218	281	28.7
Interest costs	2	10	9	286.2	(13.0)	13	37	194.1
Other income	68	54	52	(23.2)	(4.7)	183	240	31.4
PBT	791	565	424	(46.4)	(25.0)	2,146	2,454	14.4
Tax	199	137	99	(50.3)	(27.6)	491	603	22.8
PAT	592	429	325	(45.1)	(24.2)	1,655	1,852	11.9
PAT margin (%)	8.0	6.8	6.1	-	-	6.4	7.5	-
EPS (Rs)	1.4	1.0	0.8	(45.3)	(24.3)	3.9	4.3	11.5

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net revenues	23,117	25,664	24,820	23,412	27,558
EBITDA	1,869	2,194	2,533	2,264	2,853
Net profit	1,331	1,655	1,852	1,677	2,129
EPS (Rs)	3.1	3.9	4.3	3.9	5.0
EPS growth (%)	(8.1)	24.4	11.9	(9.4)	27.0
EBITDA margin (%)	8.1	8.5	10.2	9.7	10.4
P/E (x)	57.9	46.6	41.6	46.0	36.2
P/BV (x)	10.3	8.6	7.8	6.9	6.0
EV/EBITDA (x)	41.2	34.8	30.0	33.1	25.9
Dividend yield (%)	0.4	0.4	0.5	0.5	0.6
RoCE (%)	24.1	23.7	23.5	18.5	21.0
RoE (%)	19.2	20.0	19.6	15.8	17.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise analysis

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenues								
Electronics	2,055	1,538	1,503	(26.8)	(2.3)	7,599	7,545	(0.7)
Electricals	3,552	2,709	2,422	(31.8)	(10.6)	11,286	10,530	(6.7)
Consumer durables	1,790	2,020	1,441	(19.5)	(28.6)	6,779	6,745	(0.5)
Total	7,397	6,266	5,366	(27.5)	(14.4)	25,664	24,820	(3.3)
EBIT								
Electronics	303	244	213	(29.9)	(13.0)	952	1,237	29.9
Electricals	349	208	192	(44.9)	(7.8)	840	813	(3.2)
Consumer durables	118	113	35	(70.1)	(68.7)	319	399	25.1
Total	771	566	440	(42.9)	(22.2)	2,112	2,449	16.0
EBIT margin (%)								
Electronics	14.8	15.9	14.1	-	-	12.5	16.4	-
Electricals	9.8	7.7	7.9	-	-	7.4	7.7	-
Consumer durables	6.6	5.6	2.5	-	-	4.7	5.9	-
Total	10.4	9.0	8.2	-	-	8.2	9.9	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Geography-wise break-up of revenue

Region (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
South region	4,640	3,881	3,194	(31.2)	(17.7)	15,761	14,776	(6.2)
Contribution (%)	62.7	61.9	59.5	-	-	61.4	59.5	-
Non-south region	2,757	2,386	2,172	(21.2)	(9.0)	9,903	10,044	1.4
Contribution (%)	37.3	38.1	40.5	-	-	38.6	40.5	-
Total	7,397	6,267	5,366	(27.5)	(14.4)	25,664	24,820	(3.3)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Actual performance versus our estimate and consensus

4QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)	Consensus	Deviation (%)
Revenues	5,366	6,825	(21.4)	7,254	(26.0)
EBITDA	452	625	(27.7)	717	(37.0)
PAT	325	443	(26.7)	531	(38.7)

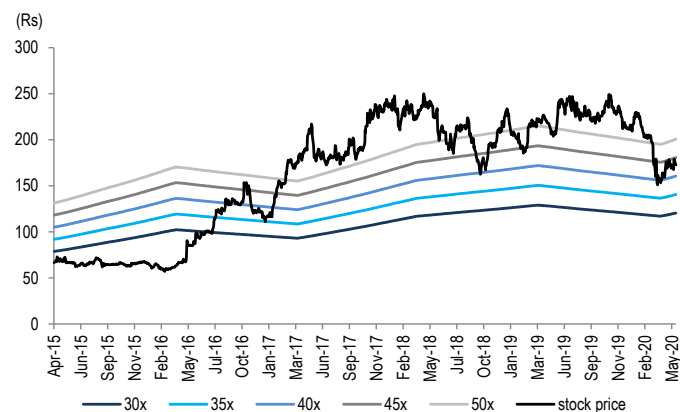
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn) Y/E March	Old		New		Deviation (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	29,137	33,428	23,412	27,558	(19.6)	(17.6)
EBITDA	2,984	3,460	2,264	2,853	(24.1)	(17.6)
PAT	2,221	2,586	1,677	2,129	(24.5)	(17.7)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: P/E charts



Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 7: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	23,117	25,664	24,820	23,412	27,558
% growth	10.8	11.0	(3.3)	(5.7)	17.7
Raw material costs	16,151	17,992	16,582	15,639	18,381
Staff costs	1,702	2,020	2,068	2,013	2,315
Other overheads	3,395	3,458	3,637	3,495	4,009
Total expenditure	21,248	23,470	22,287	21,148	24,705
EBITDA	1,869	2,194	2,533	2,264	2,853
% growth	(10.4)	17.4	15.4	(10.6)	26.0
EBITDA margin (%)	8.1	8.5	10.2	9.7	10.4
Other income	111	183	240	270	295
Interest costs	17	13	37	39	41
Depreciation	191	218	281	303	323
Profit before tax	1,773	2,146	2,454	2,192	2,783
Tax	442	491	603	515	654
Net profit	1,331	1,655	1,852	1,677	2,129
PAT margin (%)	5.8	6.4	7.5	7.2	7.7
EPS (Rs)	3.1	3.9	4.3	3.9	5.0
% growth	(8.1)	24.4	11.9	(9.4)	27.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	426	427	428	428	428
Reserves	7,090	8,570	9,509	10,801	12,459
Net worth	7,516	8,997	9,938	11,229	12,887
Total loans	-	100	100	-	-
Deferred tax liability	29	22	(22)	(22)	(22)
Total liabilities	7,546	9,119	10,015	11,207	12,865
Net block	2,006	2,135	2,675	3,391	3,478
Capital work-in-progress	75	77	669	10	10
Investments	843	923	451	451	451
Inventories	3,105	3,709	4,764	3,428	3,878
Debtors	4,445	4,543	3,218	4,169	5,059
Cash	50	847	1,115	2,254	3,200
Other current assets	1,023	1,329	1,489	1,721	1,888
Total current assets	8,623	10,427	10,586	11,571	14,024
Creditors	3,286	3,531	3,007	2,914	3,626
Other current liabilities & provisions	715	912	1,358	1,303	1,472
Total current liabilities	4,001	4,443	4,365	4,217	5,098
Net current assets	4,622	5,984	6,221	7,355	8,926
Total assets	7,546	9,119	10,015	11,207	12,865

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
EBIT	1,678	1,976	2,252	1,961	2,529
(Inc.)/dec. in working capital	(993)	(566)	33	4	(625)
Cash flow from operations	686	1,410	2,284	1,965	1,905
Other income	111	183	240	270	295
Depreciation	191	218	281	303	323
Tax paid (-)	(452)	(498)	(647)	(515)	(654)
Net cash from operations	536	1,313	2,158	2,023	1,869
Capital expenditure (-)	(484)	(350)	(1,412)	(360)	(410)
Net cash after capex	52	963	746	1,663	1,459
Interest paid (-)	(17)	(13)	(37)	(39)	(41)
Dividends paid (-)	(359)	(412)	(464)	(385)	(471)
Inc./(dec.) in short-term borrowing	(1)	100	-	(100)	-
Inc./(dec.) in long-term borrowing	(24)	-	-	-	-
Inc./(dec.) in total borrowings	(25)	100	-	(100)	-
(Inc.)/dec. in investments	49	(80)	471	-	-
Cash from financial activities	(350)	(395)	(29)	(525)	(512)
Others	199	229	(448)	-	-
Opening cash balance	150	50	847	1,115	2,254
Closing cash balance	50	847	1,115	2,254	3,200
Change in cash balance	(99)	796	269	1,138	947

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Per share (Rs)					
EPS	3.1	3.9	4.3	3.9	5.0
Book value	17.5	21.0	23.2	26.2	30.1
Valuation (x)					
P/E	57.9	46.6	41.6	46.0	36.2
P/BV	10.3	8.6	7.8	6.9	6.0
EV/EBITDA	41.2	34.8	30.0	33.1	25.9
EV/sales	3.3	3.0	3.1	3.2	2.7
Return ratios (%)					
RoCE	24.1	23.7	23.5	18.5	21.0
RoE	19.2	20.0	19.6	15.8	17.7
RoIC	27.9	28.2	28.5	23.1	28.6
Profitability ratios (%)					
EBITDA margin	8.1	8.5	10.2	9.7	10.4
EBIT margin	7.3	7.7	9.1	8.4	9.2
PAT margin	5.8	6.4	7.5	7.2	7.7
Turnover ratios					
Total asset turnover ratio (x)	3.1	2.8	2.5	2.1	2.1
Fixed asset turnover ratio (x)	9.8	9.5	7.0	5.1	5.6
Debtor days	70	65	47	65	67
Inventory days	70	75	105	80	77
Creditor days	74	72	66	68	72

Source: Company, Nirmal Bang Institutional Equities Research

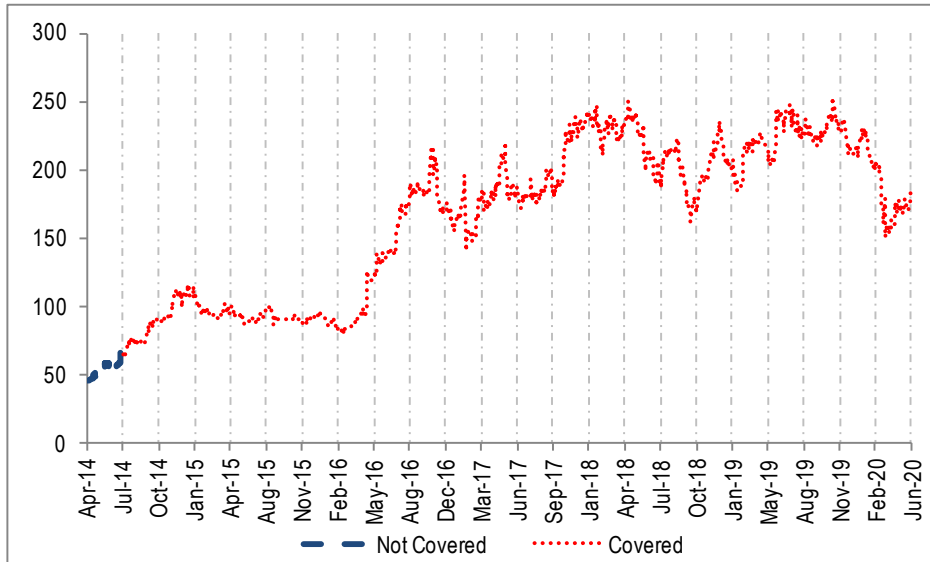
Rating track

Date	Rating	Market price	Target price (Rs)
6 April 2016	Buy	890	1,153
12 April 2016	Buy	930	1,153
5 May 2016	Buy	1,195	1,451
12 July 2016	Buy	1,404	1,451
28 July 2016	Accumulate	1,608	1,671
13 October 2016 #	Accumulate	181	167 #
24 October 2016	Accumulate	194	215
12 December 2016	Buy	175	210
10 January 2017	Buy	166	210
1 February 2017	Accumulate	205	217
14 February 2017	Accumulate	209	237
23 February 2017	Buy	212	250
7 April 2017 @	Buy	181	177 @
23 May 2017	Accumulate	193	187
6 July 2017	Accumulate	180	187
2 August 2017	Accumulate	180	182
4 October 2017	Accumulate	186	195
9 October 2017	Accumulate	190	195
27 October 2017	Accumulate	207	210
9 January 2018	Accumulate	237	210
24 January 2018	Accumulate	238	240
6 April 2018	Accumulate	229	240
1 June 2018	Accumulate	220	225
10 July 2018	Accumulate	206	225
2 August 2018	Accumulate	210	225
9 October 2018	Accumulate	164	225
29 October 2018	Buy	175	215
9 January 2019	Buy	206	215
4 February 2019	Buy	199	230
9 April 2019	Buy	218	250
31 May 2019	Accumulate	234	245
9 July 2019	Accumulate	238	245
26 July 2019	Accumulate	235	245
23 September 2019	Accumulate	222	255
7 October 2019	Accumulate	226	255
7 November 2019	Accumulate	241	245
9 January 2020	Accumulate	213	245
3 February 2020	Accumulate	217	237
26 March 2020	Buy	151	205
27 March 2020	Buy	158	205
9 April 2020	Buy	164	205
3 June 2020	Accumulate	180	190

Note: # Post stock split from a face value of Rs10 to Re1

@ Post issue of 2:5 bonus equity shares

Rating track graph



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