

CMP	Target	Rating
Rs. 1,612	Rs. 1,824	BUY

How does our one year outlook change?

- We expect VGRD to register revenue growth of 14% y-o-y in FY17E. Healthy traction in stabilizers (new model introduction), better traction in pumps, recovery in cables segment (volume growth and stable pricing), market share gains in water heaters & fans and strong growth in new products (switchgears) should driven growth going forward.
- Benign commodity prices, better pricing in key products like stabilizers, water heaters and favorable shift in product mix are expected to sustain margin expansion. Also, improvement in margin in new products, closing of price gap of products sold in non-south markets are expected to lead to an overall EBITDA margin ~10.5% in FY17E (vs. 9.6% in FY16).
- We expect VGRD revenue growth momentum to sustain driven by widening distribution reach (increased foray into non-south markets), and introduction on new products/model. Margin expansion possibilities remains given higher growth in stabilizers and prices hikes in products in non-south markets. Considering FY16-18E earnings CAGR of 27% with RoEs > 25%, we remain positive on VGRD and maintain our **Buy** rating to arrive at a target price of Rs. 1824. While we remain directionally positive on the stock, given the recent 69% rally over the past 3 months, we would wait for a better risk-reward to get an entry into the stock.

How does our 3 year Outlook change?

- We have a positive view on VGRD from a three year perspective. Being a market leader in stabilizers, it is a major beneficiary of volume growth recovery in white goods segment (A/C, Refrigerator and LED TV sales). Stabilizers which carry high margins (>20%) with ~40% EBITDA contribution would continue to drive operating profits
- Large share of un-organized market across major products in which VGRD is present (stabilizers, cables, pumps) provides sufficient headroom for growth
- We believe (a) diversifying product range (b) widening pan-India presence (c) increasing channel financing/dealer incentives schemes (d) improving product/brand acceptance in non-South (stabilizers already established) are the key structural drivers which will drive growth, profitability and return metrics

1QFY17 Update				29 July, 2016	
Promoters	65.7			Bloomberg	VGRD IN
Institutions	24.9			Shares o/s	30mn
Public	9.4			Market Cap	Rs. 48.4bn
%	1m	3m	12m	52-wk High-Low	Rs. 1,639-780
VGRD	19%	69%	77%	3m Avg. Daily Vol	Rs. 113mn
Sensex	6%	10%	3%	Index	BSE 500
CG Index	7%	18%	-12%		

Key estimate revision

	FY17E			FY18E		
	Old	New	Change	Old	New	Change
Revenue	20,937	21,231	1.4%	24,170	24,621	1.9%
EBITDA	2,100	2,233	6.3%	2,470	2,651	7.3%
Margin (%)	10.0%	10.5%	49 bps	10.2%	10.8%	55 bps
PAT	1,373	1,507	9.8%	1,652	1,828	10.7%
PAT Margin	6.6%	7.1%	54 bps	6.8%	7.4%	59 bps
EPS	45.6	50.1	9.8%	54.9	60.8	10.7%

All figures in Rs. mn, except EPS, which is in Rs.

Financial summary

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	RoCE (%)
FY15	17,459	1,330	708	23.6	68.3	19.0
FY16	18,623	1,781	1,117	37.1	43.4	25.0
FY17E	21,231	2,233	1,507	50.1	32.2	28.6
FY18E	24,621	2,651	1,828	60.8	26.5	28.0

Quarterly Financial Statements

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Financial Results					
Rs. mn\Period	1Q FY17	1Q FY16	YoY Growth	4Q FY16	QoQ Growth
Revenues	5,727	4,993	15%	5,133	12%
EBITDA	638	435	47%	635	1%
EBITDA margin (%)	11.1%	8.7%	244bps	12.4%	-122bps
Depreciation	39	39	0%	38	1%
Other income	31	16	98%	21	50%
Interest	6	40	-85%	12	-53%
PBT	625	372	68%	605	3%
Tax	197	121	63%	185	6%
Effective tax rate	31.5%	32.4%		30.6%	
PAT	428	252	70%	420	2%
PAT margin (%)	7.5%	5.0%	244bps	8.2%	-71bps
EPS (Rs.)	14.2	8.4	70%	14.0	2%

Revenue (₹ mn)	1QFY17	1QFY16	YoY Growth (%)	FY16	FY15	YoY Growth (%)
Stabilizer	1,455	1,197	21.6%	3,696	3268	13.1%
Pumps & Motors	679	513	32.4%	2,100	1889.7	11.1%
Wiring Cables	1,538	1,545	-0.5%	5,887	5836.8	0.9%
Water Heaters	518	484	7.0%	2,554	2250.8	13.5%
Electric Fan	600	501	19.8%	1,767	1374.8	28.5%
Digital UPS	749	596	25.6%	1,936	2220.6	-12.8%
Others	188	144	30.6%	688	618.6	11.2%
Total	5,727	4,981	15.0%	18,628	17,459	6.7%

Abridged Financial Statements

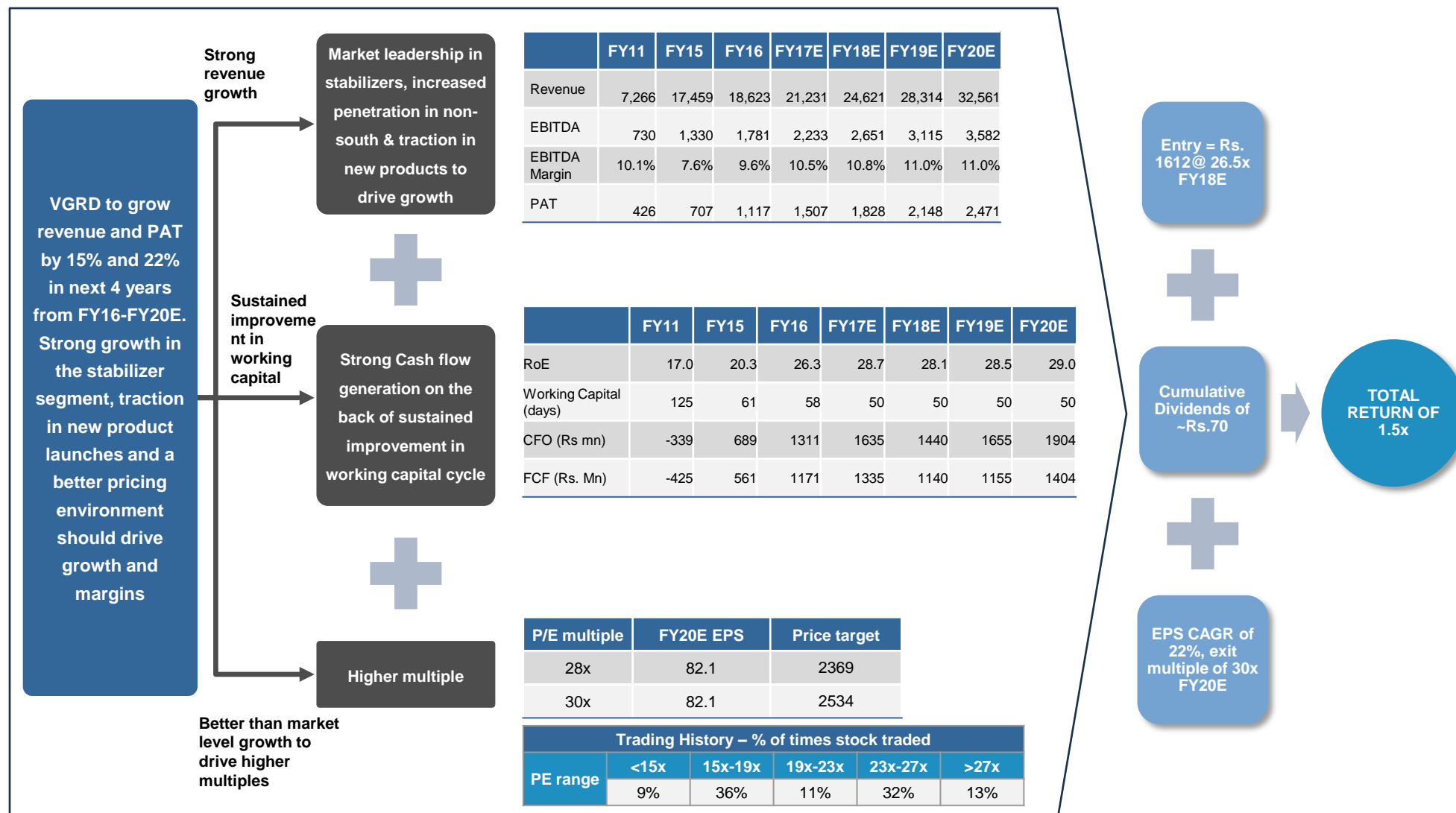
Rs. mn	FY15	FY16	FY17E	FY18E
Profit & Loss				
Total Operating Income	17,459	18,623	21,231	24,621
EBIDTA	1,330	1,781	2,233	2,651
Other Income	45	72	98	132
Depreciation	154	154	168	187
EBIT	1,221	1,699	2,163	2,595
Interest	206	89	40	20
PBT	1,015	1,610	2,123	2,575
Normalised PAT	708	1,117	1,507	1,828
Balance Sheet				
Net Worth	3,777	4,708	5,800	7,213
Loan Funds	705	71	1	1
Deferred Tax Liabilities	92	75	75	75
Sources of Funds	4,575	4,853	5,876	7,289
Gross Fixed assets	1,636	1,611	1,743	1,856
Inventories	2,608	2,047	2,426	2,813
Sundry Debtors	2,437	2,792	2,908	3,373
Cash and bank balances	22	76	984	1,755
Loans and advances	544	434	434	434
Current liabilities	2,674	2,311	2,757	3,147
Net current assets	2,939	3,049	4,006	5,239
Application of Funds	4,575	4,853	5,875	7,289
Cash Flows				
Cash Flow s from Operation	883	1,311	1,635	1,440
Cash Flow from Investments	(154)	(316)	(202)	(168)
Cash Flow s from Financing	(735)	(941)	(524)	(500)

Key metrics

	FY15	FY16	FY17E	FY18E
Growth Ratios (%)				
Revenues	15.0%	6.7%	14.0%	16.0%
EBIDTA	8.6%	33.8%	25.4%	18.7%
PAT	0.9%	57.9%	34.9%	21.3%
Margins (%)				
Gross	26.1%	29.5%	30.5%	30.5%
EBIDTA	7.6%	9.6%	10.5%	10.8%
PAT	4.1%	6.0%	7.1%	7.4%
Leverage Ratios (x)				
Debt to Equity	0.2	0.0	0.0	0.0
Current Ratio	2.1	2.3	2.5	2.7
Return Ratios (%)				
RoCE	19.0%	25.0%	28.6%	28.0%
RoE	20.3%	26.3%	28.7%	28.1%
Total Asset Turnover (x)	3.9	4.0	4.0	3.7
Fixed Asset Turnover (x)	7.6	7.7	8.1	8.4
Valuation Metrics				
Current Market Price				
Shares Outstanding (mn)	30	30	30	30
Market Capitalisation (Rs. mn)	48,489			
EPS (Rs.)	23.6	37.1	50.1	60.8
Enterprise Value (Rs. mn)	48,819	48,186	48,116	48,116
EV/Sales (x)	2.8	2.6	2.3	2.0
Price/Earnings (x)	68.3	43.4	32.2	26.5
Price/Book (x)	12.7	10.2	8.3	6.7
EV/EBIDTA (x)	36.7	27.1	21.5	18.2

V-Guard – Crystal Gazing

FY11-16 CAGR %			
Revenue	EBITDA	PAT	Price
21%	20%	21%	45%



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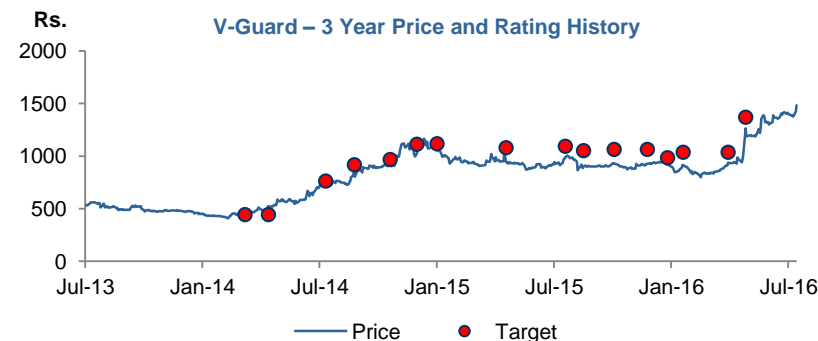
Rs. 1,612

Target

Rs. 1,824

Rating

BUY



Report Date	Price	Target	Reco.
06/May/16	1,187	1,370	Buy
11/Apr/16	911	1,037	Buy
02/Feb/16	922	1,037	Buy
07/Jan/16	914	985	Buy
09/Dec/15	921	1,064	Buy
19/Oct/15	941	1,064	Buy
02/Sep/15	904	1,052	Buy
05/Aug/15	977	1,094	Buy
06/May/15	980	1,080	Buy
20/Jan/15	1,077	1,118	Buy
18/Dec/14	993	1,113	Buy
07/Nov/14	915	968	Add
15/Sep/14	818	918	Add

Report Date	Price	Target	Reco.
31/Jul/14	744	763	Add
06/May/14	522	444	Sell
31/Mar/14	466	444	Reduce
17/May/13	487	409	Reduce

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