

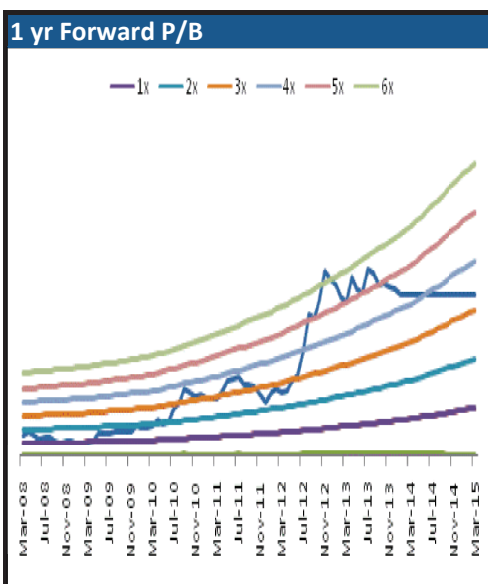
*"Lower FY14 Sales growth guidance to 11-12%....."*

Result update	Hold
CMP	450
Target Price	475
Previous	525
Upside	5%
Change from	-11%

Market Data	
BSE Code	532953
NSE Symbol	V-GUARD
52wk Range H/L	390/570
Mkt Capital (Rs Crores)	1,374
Average Daily Volume	59,460
Nifty	6,344

Stock Performance-%			
	1M	1yr	YTD
Absolute	(4.5)	(9.0)	5.0
Rel. to Nifty	(5.6)	(13.6)	(6.7)

Share Holding Pattern-%			
	3QFY14	2QFY14	1QFY14
Promoters	65.5	65.5	65.5
FII	18.5	17.4	14.5
DII	2.2	2.5	3.5
Others	13.8	14.5	16.4



For the quarter ended Dec 2013, V-Guard reported a top line of Rs. 352.9 crore, compared to Rs. 349.0 crore in 3QFY13, marking a marginal YoY growth of 1.1%. EBITDA margins for the quarter were significantly improved to 8.2% (up 89 bps YoY) due to lower ad spends. Interest expense for the quarter were up by 10.0% YoY to Rs. 5.4 crore and after giving effect depreciation and taxes, the company's PAT stood at Rs. 17.5 crore (up 14.2% YoY). On conference call, the management of V-Guard lowered their top-line guidance to 11-12% from the earlier 18-20% in FY2014. However, they expect to achieve EBITDA margin of around 8.5% for FY2014. We believe that during the election period, the power supply could remain better (with political interest), consequently lowering the UPS demand. Hence, it could take a couple of quarters to witness a reversal in the trend, if any. On this backdrop, we have lowered our revenues estimates by 9% in FY2014 and 13% in FY2015. Consequently, we have revised down our EPS estimates by 21% in FY2014 and 16% in FY2015.

### Strong Balance Sheet

- Total Debt has been reduced significantly as on 3Q FY14 to Rs. 117.7 crore, compared to Rs. 157 crore as on 3Q FY13. Working capital loan reduced to Rs. 77.1 crore from 134.0 crore and whereas term loan increased to Rs. 40.6 crore from 22.9 crore.
- Working capital cycle on a TTM basis improves by 9 days to 76 days. Mainly Led by 15 days reduction in debtors. Management has also guided for improvement in net working capital cycle by 5- 10 days every year going forward. This will further improve its ROCE and ROE going forward.
- Strong cash generation in 9M. FY14 Cash from operations at Rs. 90 crore in 9M FY14 as compared to Rs. 14.5 crore for full year FY13

### Outlook

As expected, the company's contribution to revenue has improved from its non south market as compared to its incumbent southern market. All in all we observe this result as significantly below our estimates. Although company has reported increase in EBITDA margin in 3QFY14 by 80 bps, but it still below our full year expectation of 9%. **We believe that during the election period, the power supply could remain better (with political interest), consequently lowering the UPS demand. Hence, it could take a couple of quarters to witness a reversal in the trend, if any. On this backdrop, we have lowered our revenues estimates by 9% in FY2014 and 13% in FY2015. Consequently, we have revised down our EPS estimates by 21% in FY2014 and 16% in FY2015. However we believe company strong balance sheet, a wide range of products and a strong hold over its existing market, all of which give it an edge over its rivals. At the current CMP of Rs. 457, the stock is trading at a PE of 18.3x and 13.8x of FY14E and FY15E. The company can post RoE of 23.2% and 24.1% & EPS of Rs. 25.2 and Rs. 33.2 FY14E and FY15E. We believe that the current level is not attractive to make position in this stock, one should wait further correction from current level, however one who already own the stock can hold it with the revised price target of Rs. 475.**

Financials	Rs, Crore				
Consolidated	3QFY14	2QFY14	(QoQ)-%	3QFY13	(YoY)-%
Revenue	352.9	334.0	5.7%	349.0	1.1%
EBITDA	29.1	27.1	7.7%	25.7	13.3%
PAT	17.5	14.5	-21.0%	15.4	14.2%
EBITDA Margin	8.1%	8.1%	0 bps	7.3%	80 bps
PAT Margin	4.9%	4.3%	60 bps	4.4%	50 bps

(Source: Company/ Eastwind Research)

Standalone

# V-Guard Industries Ltd.

## Conference Call Highlights

- Non South market sales in Q3 FY'14 stood about 30% of total sales and grew by about 30% as well. The South market which constitutes about 70% degrew by about 8-9% in value terms and by about 13-15% in volume terms. Overall, thus company ended up with flattish kind of sales growth in Q3 FY'14. For Q4 FY'14, management expects about 10-12% sales growth.
- In Q3 FY'14, the company was able to improve its gross margin by 100 bps which was largely due to lower Advertisement expenditure YoY. Going forward Ad expenditure will be around 3.5-4% of sales.
- The Electronics segment, which constitute stabilizers and UPS, which contribute about 24% of total sales in Q3 FY'14, degrew by 18% YoY, Electrical which includes pumps, house wiring cable, electric water heater, fans and others, and contribute about 72% of total sales, grew by about 8%, with electric water heater and house wiring cables delivered a healthy growth, while the solar water heater which constitute about 4% of total sales, grew by about 30%. The premium variant of the electric water heater segment launched in FY'14 continues to get good response.
- As per the management, better power supply in States of Tamil Nadu and Andhra Pradesh together with lower sale of consumer durable products due to weak consumer sentiment, affected the growth of the company. Also due to sand mining ban in many parts of the country, construction activities were also slow leading to lower sale of wire business.
- As per the management, the power situation in South India should be temporary phenomena largely due to elections. Also extended monsoon also delayed some of the product sale and affected the demand.
- Total market of electric wires will be about Rs 7500 crore of which company has share of about 6%. By year end the company should be able to report about Rs 450-475 crore of electric wires. Polycab has highest market share of 20% followed by Finolex cables of about 12%.
- Raw material prices of cooper and other metals were steady and more on downward side. Management expects raw material prices to slightly inch up from March'14 onwards which is general seasonally trend.
- The new products introduced last year namely Induction Cooker, Mixer Grinder and Switchgears did well and are expected to post revenue of about Rs 50 crore totally in FY'14.
- Lower tax rate during the quarter was as a result of a 200% weightage deduction on R&D and on capital expenditure which the company received the approval from this year and going forward also the deduction will continue.
- Overall, management expects about 11-12% growth in FY'14 with Ebidta margin of about 8.5-9%. The management lowered its earlier guidance of about 20% growth in FY'14 largely due to current economic and environmental challenges.

# V-Guard Industries Ltd.

## Key financials

PARTICULAR	2010A	2011A	2012A	2013A	2014E	2015E
<b>Performance</b>						
Revenue	454	727	994	1360	1510	1736
Other Income	1	2	2	4	5	6
Total Income	456	728	996	1364	1515	1742
EBITDA	50	73	94	110	131	156
EBIT	43	65	84	99	119	141
DEPRICIATION	7	8	10	11	12	15
INTREST COST	5	11	17	20	21	15
PBT	40	55	69	82	102	132
TAX	14	16	18	19	27	33
Extra Oridiniary Items	NA	NA	NA	NA	NA	NA
Reported PAT	25	39	51	63	75	99
Dividend (INR)	10	12	12	12	12	12
DPS	3.5	4.1	4.1	4.1	4.1	4.0
EPS	8.5	13.1	17.0	21.1	25.2	33.2
<b>Yeild %</b>						
EBITDA %	11.1%	10.1%	9.4%	8.1%	8.7%	9.0%
NPM %	5.6%	5.4%	5.1%	4.6%	5.0%	5.7%
Earning Yeild %	9.6%	7.8%	9.2%	4.8%	5.5%	7.2%
Dividend Yeild %	4.0%	2.4%	2.2%	0.9%	0.9%	0.9%
ROE %	18.0%	22.7%	24.1%	24.1%	23.2%	24.1%
ROCE%	13.8%	16.2%	21.2%	19.4%	21.4%	21.7%
<b>Position</b>						
Net Worth	141	172	211	261	324	412
Total Debt	81	139	109	165	125	115
Capital Employed	222	311	320	427	449	527
No of Share (Adj)	3	3	3	3	3	3
CMP	89	168	186	435	460	460
<b>Valuation</b>						
Book Value	47.4	57.6	70.6	87.6	108.7	137.9
P/B	1.9	2.9	2.6	5.0	4.2	3.3
Int/Coverage	8.4	5.7	4.9	4.9	5.6	9.4
P/E	10.4	12.9	10.9	20.7	18.3	13.8

(Source: Company/ Eastwind Research)