NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

V-Guard Industries Ltd.

"Near-term headwinds but earnings recovery ahead........"

"Hold"
30th Oct' 13

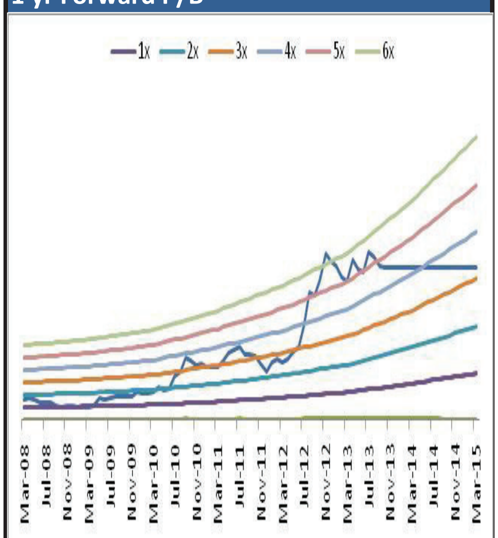
Result update	Hold
CMP	478
Target Price	525
Previous	565
Upside	9%
Change from	-8%

Market Data	
BSE Code	532953
NSE Symbol	V-GUARD
52wk Range H/L	390/570
Mkt Capital (Rs Crores)	1,440
Average Daily Volume	59,460
Nifty	6,143

Stock Performance-%			
	1M	1yr	YTD
Absolute	(1.5)	16.1	11.3
Rel. to Nifty	(5.8)	8.0	3.2

Share Holding Pattern-%			
	2QFY14	1QFY14	4QFY13
Promoters	65.5	65.5	65.3
FII	17.4	14.5	12.7
DII	2.5	3.5	3.8
Others	14.5	16.4	18.3

1 yr Forward P/B



For the quarter ended Sep 2013, V-Guard reported a top line of Rs. 334.0 crore, compared to Rs. 313.5 crore in 2QFY13, marking a YoY growth of 6.5%. EBITDA margins for the quarter were significantly lower to 8.1% (down 146 bps YoY) due to higher ad spends with the objective of penetrating the non-South markets. Interest expense for the quarter were up by 12.2% YoY to Rs. 4.8 crore and after giving effect depreciation and taxes, the company's PAT stood at Rs. 14.5 crore (down 19.2% YoY).

Extended monsoon season affect topline growth

The V-Guard revenue from the southern region declined 2% YoY due to a high base last year in Q2, when an extended summer season boosted sales and de-growth in revenue from the digital UPS segments. It's two major categories, pump & digital UPS (FY13 revenue contribution of ~28%) recorded a decline in sales by 22% and 47%, respectively, due to extended monsoon coupled with improved power availability in southern regions. Additionally, non-south geographies continue to grow at a strong pace, up 34% YoY and revenue contribution of non-south regions has increased 500 bps YoY to 28% in Q2FY14.

Strong Balance Sheet

• Debt has been reduced significantly as on H1 FY14 to Rs. 99 crore, compared to Rs. 157 crore as on H1 FY13.
• Improved working capital days from 73 days to 69 days in H1 FY14 on back of improvement in debtor days from 53 days in H1FY13 to 40 days in H1FY14. However inventory days increased to 81 days in H1FY14 to 70 days in H1FY13 during the period was on account of a slow expansion in new geographies.
• Increased assets turnover to 2.40 times in H1 FY14 compared to 2.17 times in H1 FY13

Management guidence :

• Revenues will grow by 20 percent in FY14. (revised from 25%)
• Expect EBITDA margins to be in the range of 9-9.5% for the full year FY14.
• Expect Rs 500 crore topline from cables and wires in FY14 further, expect this vertical to grow at 25 to 30 percent in the next two to three years.
• Expect capex for FY14 to be in range bound of 20-25 crore.

Valuations :

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 marginally below our estimates. **We cut ourEPS estimates for FY14 and FY15 by 6.3% owing to lower than expected revenue. However we belive 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. We revised our rating on stock from "Buy" to "Hold" with a revised price target of Rs. 525.**

Financials Rs, Crore

Consolidated	2QFY14	1QFY14	(QoQ)-%	2QFY13	(YoY)-%
Revenue	334.0	408.2	-18.2%	329.1	1.5%
EBITDA	27.1	30.9	-12.6%	34.3	-21.1%
PAT	14.5	17.6	17.9%	20.7	-29.9%
EBITDA Margin	8.1%	7.6%	260 bps	10.4%	(280) bps
PAT Margin	4.3%	4.3%	190 bps	6.3%	(200) bps

(Source: Company/ Eastwind Research) **Standalone**

V-Guard Industries Ltd.

Key financials

PARTICULAR	2010A	2011A	2012A	2013A	2014E	2015E
Performance						
Revenue	454	727	994	1360	1659	1991
Other Income	1	2	2	4	6	6
Total Income	456	728	996	1364	1665	1997
EBITDA	50	73	94	110	149	179
EBIT	43	65	84	99	136	164
DEPRICIATION	7	8	10	11	13	15
INTREST COST	5	11	17	20	19	13
PBT	40	55	69	82	124	155
TAX	14	16	18	19	29	39
Extra Oridiniary Items	NA	NA	NA	NA	NA	NA
Reported PAT	25	39	51	63	95	116
Dividend (INR)	10	12	12	12	12	18
DPS	3.5	4.1	4.1	4.1	4.1	6.0
EPS	8.5	13.1	17.0	21.1	31.7	39.0
Yeild %						
EBITDA %	11.1%	10.1%	9.4%	8.1%	9.0%	9.0%
NPM %	5.6%	5.4%	5.1%	4.6%	5.7%	5.8%
Earning Yeild %	9.6%	7.8%	9.2%	4.8%	6.6%	8.1%
Dividend Yeild %	4.0%	2.4%	2.2%	0.9%	0.8%	1.3%
ROE %	18.0%	22.7%	24.1%	24.1%	27.5%	26.3%
ROCE%	13.8%	16.2%	21.2%	19.4%	24.2%	23.2%
Position						
Net Worth	141	172	211	261	344	442
Total Debt	81	139	109	165	125	115
Capital Employed	222	311	320	427	469	557
No of Share (Adj)	3	3	3	3	3	3
CMP	89	168	186	435	482	482
Valuation						
Book Value	47.4	57.6	70.6	87.6	115.2	148.2
P/B	1.9	2.9	2.6	5.0	4.2	3.3
Int/Coverage	8.4	5.7	4.9	4.9	7.3	12.6
P/E	10.4	12.9	10.9	20.7	15.2	12.4

(Source: Company/ Eastwind Research)