

India Electricals

Cranking up the voltage

INDIA | MIDCAP-ELECTRICALS | Sector Update

13 October 2015

The growth of the Indian economy over the past decade is well documented. With GDP registering a CAGR of 13% over the last 10 years (nominal), per capita income (nominal) has trebled, resulting in higher consumption levels across products and services. This has not only reflected in higher discretionary spending, but also spurred upgrades in purchases of nondiscretionary items. However, despite being the second-most populous country in the world, India has a shockingly low per-capita electricity consumption, especially in rural parts of the country.

With structural improvements underway, such as the increase in housing stock, increase in power generation availability, and the improving demographic profile of the population, there is immense potential for growth of electrical products.

Using this as the backdrop, we are initiating coverage on four companies in the consumer electrical space. We have prioritised cash flows and working capital management, in addition to soundness of the business model; while evaluating companies in the space.

Havells India

A cash-generating giant, Havells has rapidly expanded its product basket and distribution reach over the past decade. With its huge distribution network and short working capital cycle, the company's domestic operations generate significant cash, which form the bedrock of its valuation. We have a Buy rating with a target price of Rs 297.

Finolex Cables

As one of the most trusted brands in electrical wires and cables, Finolex Cables is slowly expanding its distribution network outside its traditional strongholds of southern and western India. Simultaneously, it plans to introduce new products in an effort to leverage its extensive distribution network. Trading at a significant discount to similar sized peers, we have a BUY recommendation on the company and a target price of Rs 323.

V Guard Industries

From a mid-sized player focused on south India to an emerging national player, V Guard has delivered scorching growth over the past few years. Using an 'asset-light' model, it has rapidly ramped up its distribution network while steadily strengthening its balance sheet. While we are positive about the company's prospects, we believe that it is trading close to its fair value of Rs 919. Hence, we initiate coverage with a NEUTRAL rating.

Bajaj Electricals

One of the oldest companies in the country, Bajaj Electricals has witnessed turbulence in its operations off late, as the sheen of its electrical operations were dulled by the performance of its engineering projects (EP) division. Given the uncertain performance of the EP business and lower potential returns, we initiate coverage with a SELL recommendation and a price objective of Rs 206.

Companies

Havells India Ltd

Reco	BUY
CMP, Rs	259
Target Price, Rs	297

Finolex Cables Ltd

Reco	BUY
CMP, Rs	232
Target Price, Rs	323

V-Guard Industries Ltd

Reco	NEUTRAL
CMP, Rs	908
Target Price, Rs	919

Bajaj Electricals Ltd

Reco	SELL
CMP, Rs	246
Target Price, Rs	206

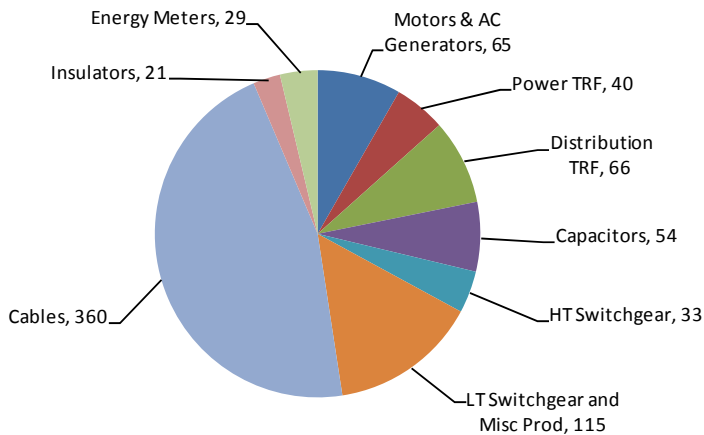
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Introduction

With a size of Rs 640bn, the Indian electrical industry is a lead indicator of industrial capex as well as individual household capex. It has direct links to frontline sectors of the Indian economy such as banking, power, roads, logistics, etc., which have enabled it to clock a CAGR of 3% over the last five years, despite sluggish economic conditions. Over the past several years, the industry has been transforming, with some of the noteworthy trends being fall in market share of unorganized players, consumer preference for premiumisation, and reducing working capital intensity of organized players.

Indian electrical industry in FY15 (Rs bn)

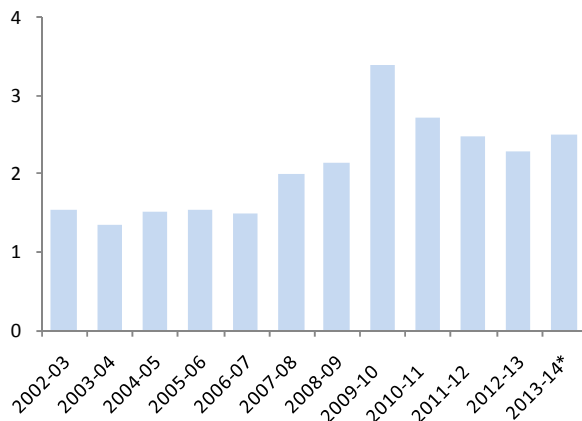


Source: IEEMA

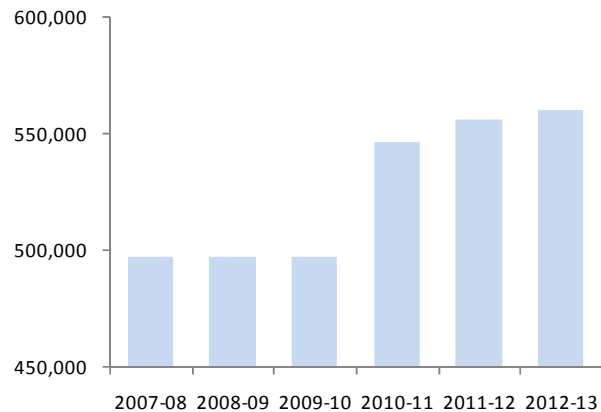
We believe that the drivers for the electrical industry still remain in place and are gradually building up momentum, thereby making the sector a worthwhile investment opportunity.

Rising housing stock: With more than 25mn houses built in rural areas under the Indira Awaas Yojana (IAY) (FY13) and increasing budgetary allocation for this in successive budgets, housing is proving to be a big source of consumption of household electricals. This, coupled with stable crop prices over the past few years, has resulted in a rise in rural incomes, boosting conspicuous consumption in these areas. This has served to improve consumption of electrical goods in the country.

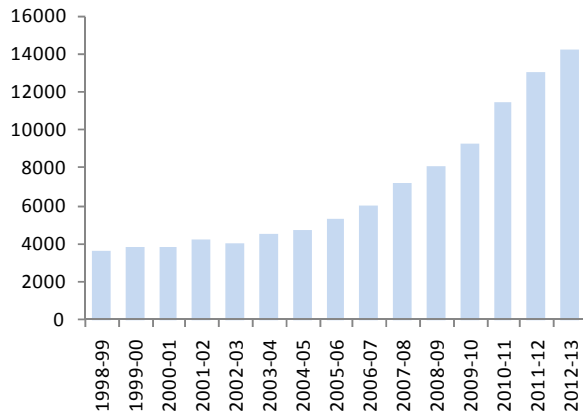
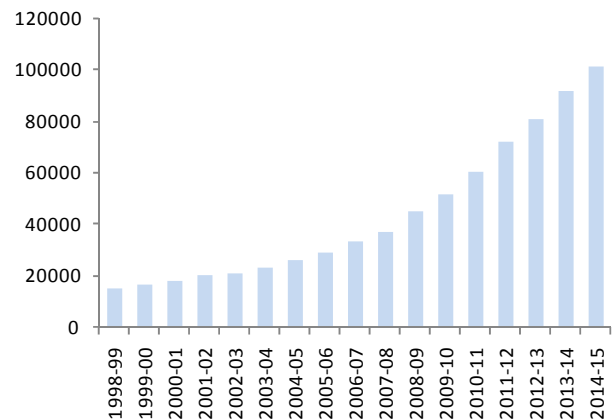
Rural housing stock in India



No. of electrified villages in India

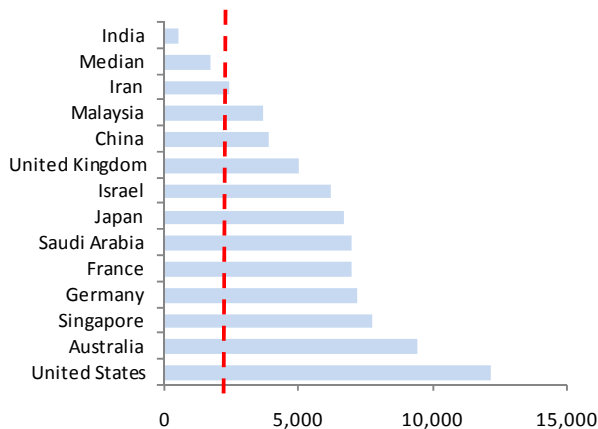


Source: CEA, Lok Sabha Secretariat, Gol; * Provisional numbers

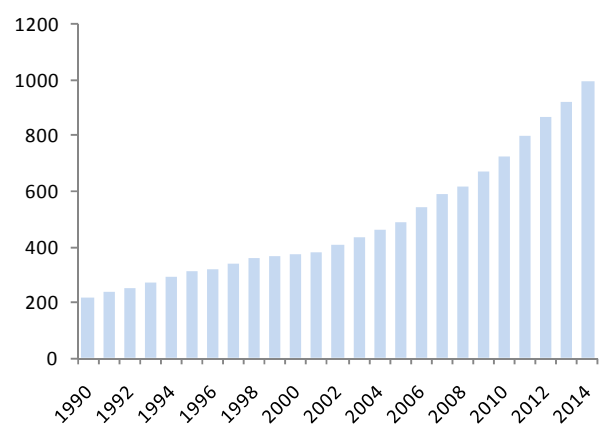
Trend in farm incomes – Agri GDP - Current Price (Rs bn)

Rising Annual personal disposable household income (Rs bn)


Source: CEA, Ministry of Power

Structural changes boosting demand. Low per capita consumption of electricity in the country, especially due to poor availability in rural areas, has hampered offtake of electrical products. However, a gradual rectification of this problem is underway, through increased generation and improving availability — this will be one of the largest drivers of sales for the electricals sector, but not necessarily large, organized players.

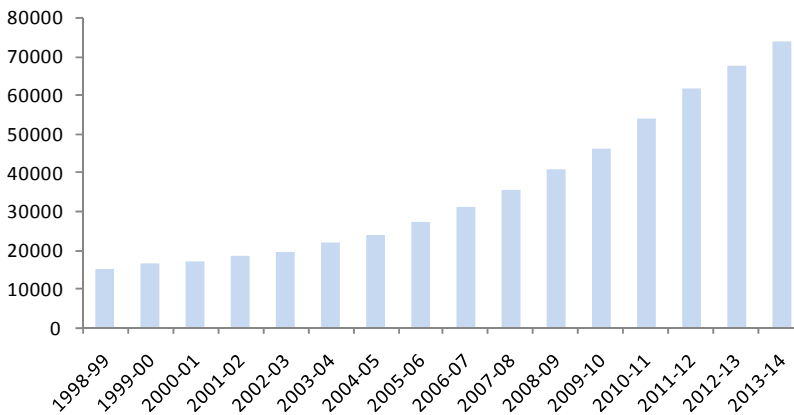
Low per capita consumption of electricity vs. other countries


Source: CIA Factbook, 2015

Rising power-generation capacity ('000 MW)


Source: CEA, Ministry of Power

Change in consumer preferences. A variety of factors such as increase in literacy and affordability, higher standards of living, and heightened quality consciousness, have contributed to a gradual change in consumption patterns over the last decade. Increasing sales of TVs, refrigerators, washing machines and other appliances like micro-waves and ovens have also contributed to the increasing consumption of electrical goods such as wires and switchgears. While this shift has been more pronounced in urban India, the proliferation of satellite television has resulted in an emergence of this phenomenon in rural India as well.

Per capita income growth - Current Price Rs.


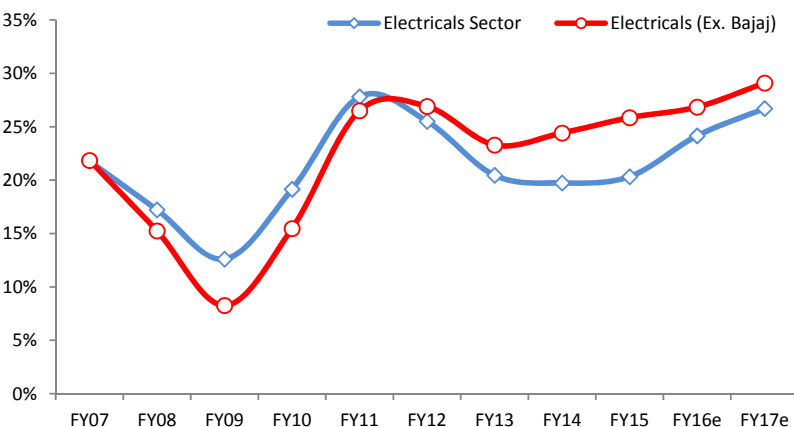
Source: RBI, GOI

Household requirement of electricals

Component	Unit	Requirement
Cables	(m)	280-300
Switches	(no.s)	22
Switchgears	(no.s)	2
Fans	(no.s)	3
FTL	(no.s)	4
CFL / LED bulb	(no.s)	4

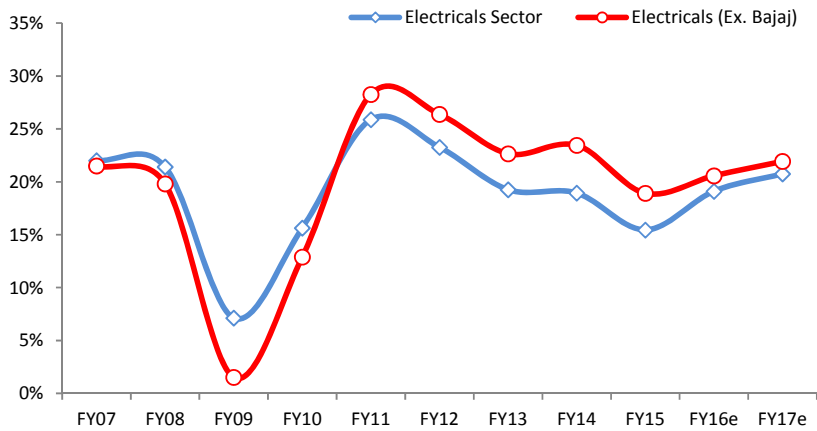
Source: Electrical Industry

Scale and reach of electrical companies. Mindful of the rapidly evolving consumption pattern of electrical goods, large and mid-sized players are gradually squeezing out the unorganized sector. While a balanced product profile, efficient operations, and extensive distribution are common in most companies, a key differentiating factor is the pedigree of the management.

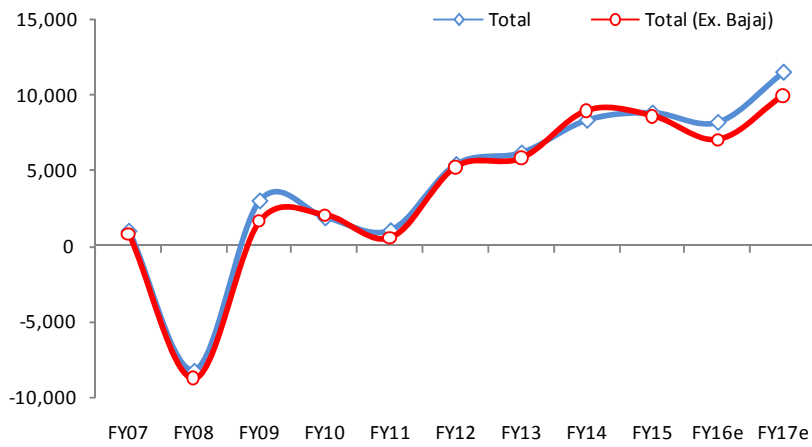
Return on Capital Employed (%)


Source: Company, PhillipCapital India Research

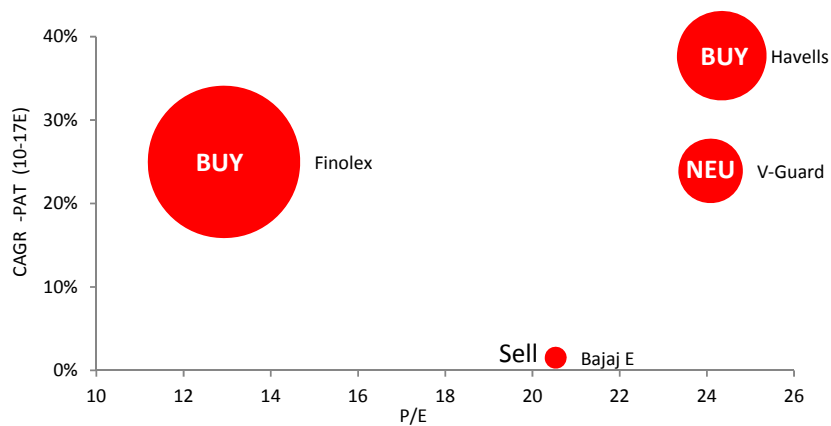
Return on Equity (%)



Electricals Sector- Free Cash Flows (Rs bn)



Electricals Sector Picks



Source: Company, PhillipCapital India Research

Havells India Ltd (HAVL IN)

Electrical juggernaut

INDIA | MIDCAP-ELECTRICALS | Re-Initiating Coverage

13 October 2015

As one of India's leading electrical goods and appliances companies, Havells is an established player with a pan-India presence. Its sizeable manufacturing operations are backed by wide reach and savvy marketing. The company also has significant international operations in the EU and Latin America, through the *Sylvania* brand. We believe that the company is on a strong footing because of (1) depth and relevance of product portfolio in India, (2) superlative working capital management, and (3) steady increase in distribution reach and systematic widening of product basket.

Comprehensive product portfolio

Havells has a vast product range, which spans several verticals in the electrical industry. Though seemingly diverse, products like cables, switchgear, lighting products, and consumer appliances have enabled it to maximise its share of discretionary spending on household electricals. Over the years, the company has consistently managed to maintain traction in revenues across product categories through the regular introduction of new products and variants, targeting the premium, and of late, mid-market segments in the Indian economy.

Robust operating setup

The company has built up large production capacities in almost all its products, with the purpose of maintaining strict quality controls and to derive benefits from economies of large-scale manufacturing. To back this up, it has adopted a marketing strategy centered on brand recall, where its ad-spends are on par with multinational peers and designed to showcase individual products. It has also backed this up with a formidable distribution network in tier 1-2 cities and is now focusing on deepening its penetration in the rural hinterland.

Strong cash conversion

Havells securitises its domestic receivables through a consortium of banks. Additionally, many of its vendors avail of channel-financing facilities and with near-zero delinquencies, the company has a negative working capital cycle in India. Encouragingly, it has also started factoring its receivables in its international operations housed in Sylvania, thereby shrinking its working capital cycle at the enterprise level.

Near-term slowdown could rapidly give way to high growth.

Subdued industrial activity in India resulted in subdued sales for Havells in FY15. While consumer spending has slowed, the company has persisted with the addition of new products like air coolers in its line-up and remains focused on increasing its distribution reach in untapped areas of the country. We believe that increased government spending on infrastructure creation coupled with a pick-up in industrial activity in FY16 could pave the way for a broad-based recovery in FY17. Havells could be best placed to capitalize on this, given its product basket and distribution reach.

Valuation

As one of the marquee names in the Indian electricals sector, Havells has built its business on a solid tripod of distribution, large-scale manufacturing, and customer outreach. As the cash flow generation is impressive and the company's return ratios are set to improve, Sylvania notwithstanding, growth over the next few quarters could see a revival. With impressive generation of cash flows in India and Sylvania's working capital set to ease, the company will be in a position to consolidate its leadership in the sector. Hence, we initiate coverage on it with a Buy recommendation and price objective of Rs 297, which represents an upside of 15% from its current price.

BUY

CMP RS 259

TARGET RS 297 (+15%)

COMPANY DATA

O/S SHARES (MN) :	625
MARKET CAP (RSBN) :	162
MARKET CAP (USDBN) :	2.5
52 - WK HI/LO (RS) :	346 / 240
LIQUIDITY 3M (USDMN) :	3.4
PAR VALUE (RS) :	1

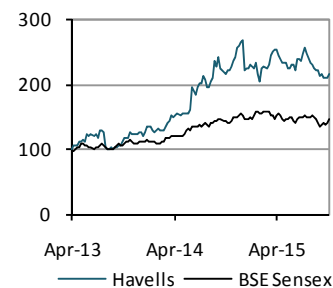
SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	61.6	61.6	61.6
FII / NRI :	26.4	26.9	26.6
FI / MF :	3.1	2.6	2.9
NON PRO :	2.1	2.2	2.5
PUBLIC & OTHERS :	7.5	7.6	7.6

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	0.1	-12.9	-2.7
REL TO BSE	-4.9	-10.2	-5.0

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	85,698	93,952	105,664
EBIDTA	7,215	9,023	11,056
Net Profit	3,854	5,342	6,655
EPS, Rs	6.2	8.6	10.7
PER, x	41.9	30.3	24.3
EV/EBIDTA, x	20.3	16.3	13.0
P/BV, x	8.9	7.6	6.3
ROE, %	0.2	0.1	0.1

Source: PhillipCapital India Research Est.

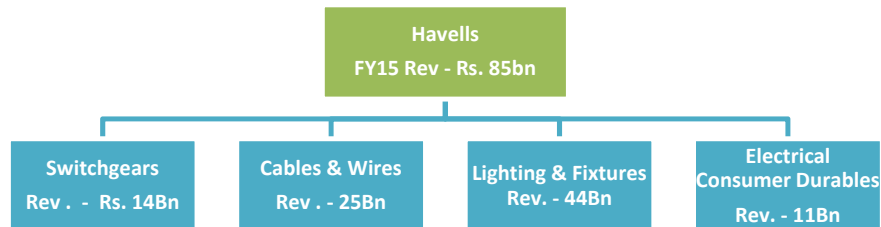
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Comprehensive product range

Havells has a vast product range spanning several verticals. Though distinct in applications, its products are priced and designed to encompass the widest possible range of utility, enabling it to maximise its share of the consumer discretionary spending on household electricals.

Havells – revenue break up



Source: Company, PhillipCapital India Research

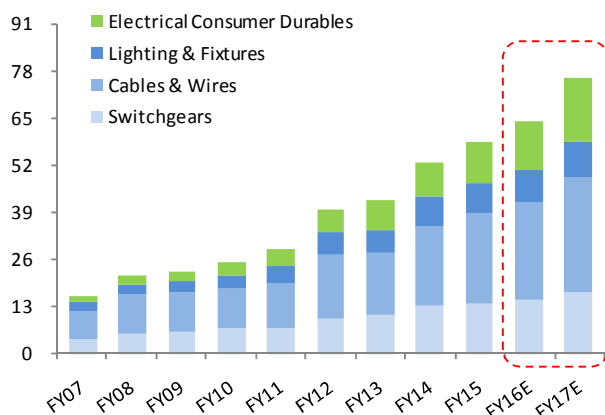
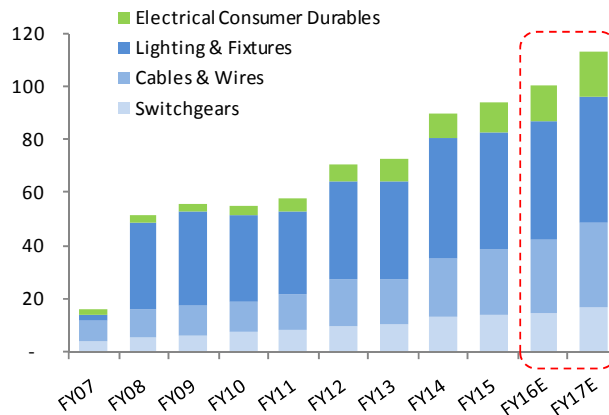
Cables and wires: Manufacturing cables (for industry) and wires (for households), Havells has an extensive range consisting of low-tension (1.1-11 kV) and high-tension (11-66 kV) cables. Even though this category is highly commoditised and extremely price sensitive with intense competition from the unorganised sector, Havells persists with it in order to offer its customers a well-rounded product profile. Its product quality and brand perception have consistently enabled the company to enjoy a 2-3% premium to peers in this product category. The company derives ~27% of its overall revenues from this vertical, with margins ranging from 8-10%.

Switchgear: Havells is one of the country's leading manufacturers of switchgear. Leading the market in categories such as miniature circuit breakers (MCBs), residual circuit breakers (RCBs) and other associated equipment in domestic switchgear, it commands a ~20% market share in this vertical. It also manufactures industrial switchgear, though on a smaller scale. This is due to industry dynamics where most sales are direct (B2B), necessitating a large sales force. Consequently, it has a meagre 9% market share in this segment. As a whole, this vertical contributed ~15% to its revenues in FY15 with rich gross margins of 32%, making it the company's most lucrative product vertical.

Lighting and luminaires: Havells manufactures CFLs and energy-saving FTLs (fluorescent tube lights) with a wide array of luminaires and fixtures. It is one of the top-five domestic manufacturers in this segment. Its domestic lighting and luminaires contribute ~9% to overall revenues, while its international operations, housed in Sylvania, make up ~36% of consolidated revenues. Sylvania enjoys tremendous brand equity, has an extensive and contemporary product range, and impressive access to markets in over 40 countries, covering Europe, Latin America, and the Far East. The margin profile of domestic and international lighting operations is sharply divergent, with Havells earning ~20% margins in India and low single digit margins overseas. However, the lighting business at home and abroad has been buffeted by shift in consumer preference to LEDs, resulting in falling volumes and margin erosion.

Electrical consumer durables: Under this vertical, Havells launched fans in CY04 and presently is one of the top-five national brands in this segment. It then launched hot-water geysers, imported from China, in CY10, ramping up by selectively launching a new product in this vertical every 12-18 months. In September 2011, it launched consumer appliances such as irons, ovens, and electric kettles, garnering Rs 350mn in sales in its first year. It launched air coolers in CY15, thereby maintaining its trend of launching new product categories every six quarters and converting them into Rs 1bn streams of recurring revenue over a period of five to six quarters. Through a mix of

manufacturing operations and outsourcing, the company intends to scale up revenues from electrical consumer durables to Rs 4.0-4.5bn by FY17.

Havells: S.A. revenue break up (Rs bn)

Havells: Consolidated revenue break up (Rs bn)


Source: Company, PhillipCapital India Research

Formidable manufacturing operations

Since its inception, Havells has maintained a policy of in-house manufacturing. It has plants for all major products in its portfolio with the exception of certain consumer appliances, LEDs and particular varieties of lighting fixtures, which it outsources. This is due to its policy of optimum utilisation of raw material and stringent quality standards. Consequently, it has a contemporary product repertoire coupled with impeccable quality, which is borne out by lower rejection / defects and repeat customer purchases.

As a matter of policy, Havells manufactures products whose revenue streams are sizeable enough to justify in-house manufacturing. It has continuously ramped up its manufacturing capacity across verticals and is the country's largest manufacturer of CFLs, motors and fans. It is also one of the top-three manufacturers of wires, switchgear, and electrical fixtures.

It has decided to opt for outsourcing in select product categories, such as consumer appliances, in order to cut down on the lead time to markets. By opting to monitor quality standards and focus on advertising and distribution, it has adopted an 'asset-light' model in this segment. As this industry is characterised by rapidly changing consumer preferences in terms of products and designs, inflexible manufacturing facilities often face the risk of obsolescence. Hence, this limited outsourcing will be beneficial for Havells' balance sheet and operating parameters, as it leaves the company free to leverage its marketing and distribution competencies to the hilt and simultaneously boost return ratios.

Havells: Manufacturing locations

Location	Product
Alwar	Cables & wires
Noida	Capacitors, Lighting
Baddi	Switchgears
Haridwar	Fans
Neemrana	Motors, Lighting & Fixtures
Sahibabad	Switchgears
Faridabad	Switchgear, Lighting

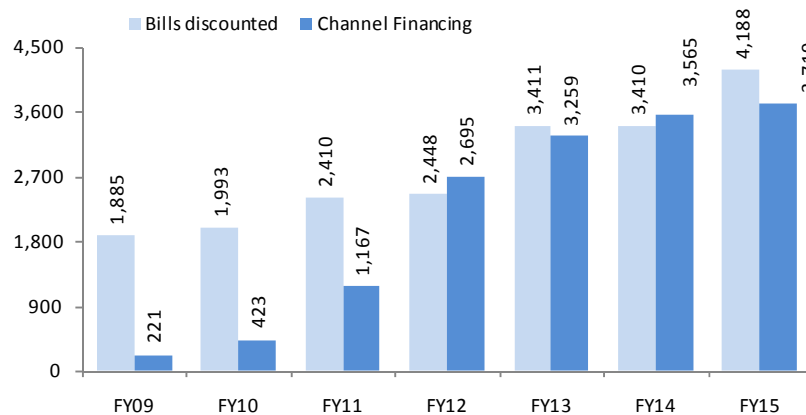
Source: Company, PhillipCapital India Research

Very effective marketing, vast distribution network

Over the years, through aggressive national advertising, Havells has emerged as a strong brand. With ad spends comparable to some FMCG players, its products are marketed as technologically superior and 'value-for-money' propositions. As a policy, the company earmarks ~5% of its domestic revenues towards its ad budget, a large chunk of which is spent during important cricket tournaments such as the Indian Premier League. Consequently, it is one of the 'top-five' consumer brands in electricals in the country.

The cornerstone of its spectacular growth in revenue in the past several years has been the successful leveraging of its distribution network. With over 6,000 distributors and 40,000 retailers across the country, Havells has one of the most extensive setups in the industry. Over the years, it has cultivated its dealers through trade-friendly practices, enabling it to launch a wide variety of products in seemingly different verticals. The efficiency and reliability of its distribution channels are borne out by its market share in most product categories and improved revenues and operating profits, which have registered respectively 16% and 18% CAGRs in the past four years (FY10-15).

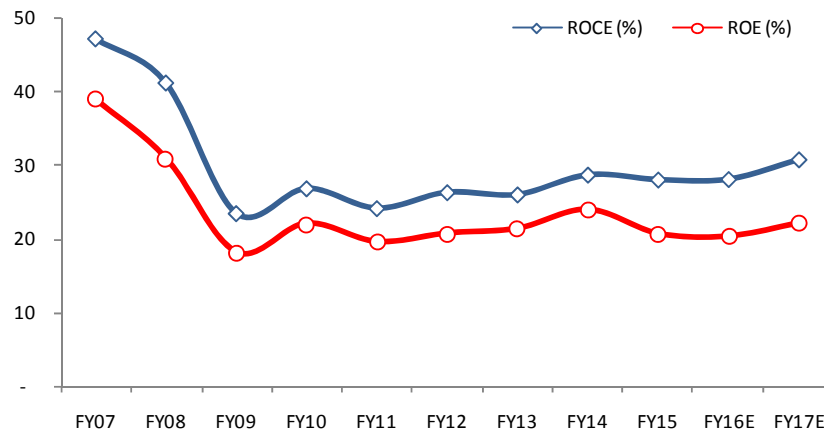
Havells: Bill discounting and channel financing trend



Source: Company, PhillipCapital India Research

Extremely short domestic cash-conversion cycle

In its domestic operations, Havells securitises its receivables through a consortium of banks. With near-zero delinquencies from its domestic dealers, it secures attractive rates. It has arranged for channel finance for many of its vendors. As a result, it operates on a near-zero working-capital cycle in India, thus generating healthy amounts of cash in the process. In a positive development, Havells has recently secured a line of euro 35m for Sylvania's operations, thereby reducing debt on its balance sheet.

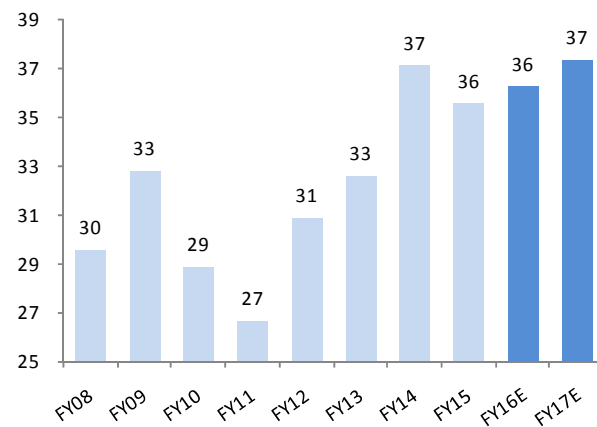
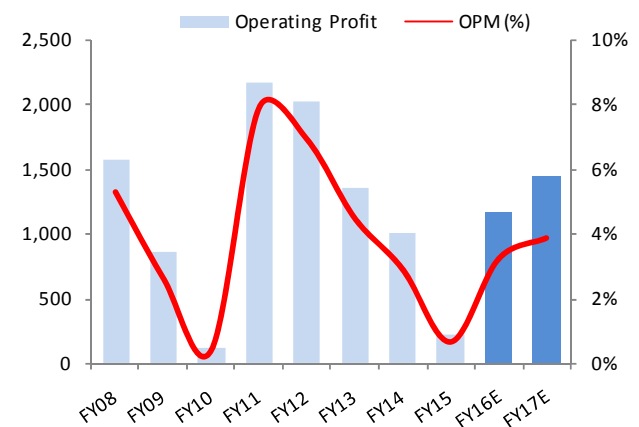
Havells: Profile of return ratios (S.A)


Source: Company, PhillipCapital India Research

Sylvania – A mixed bag

In CY07 Havells acquired Germany-based SLI Sylvania for an enterprise value of € 227mn. Sylvania’s operations were a part of OSRAM, a division of Siemens. On the restructuring of the Siemens group, SLI's ownership vested with financial investors. The SLI acquisition was routed through a 100% SPV, i.e., Havells Netherlands BV with the following objectives:

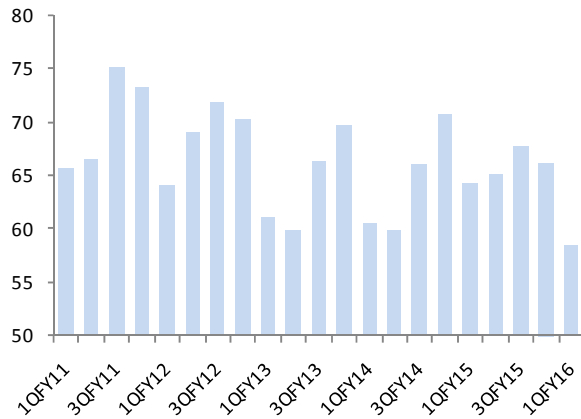
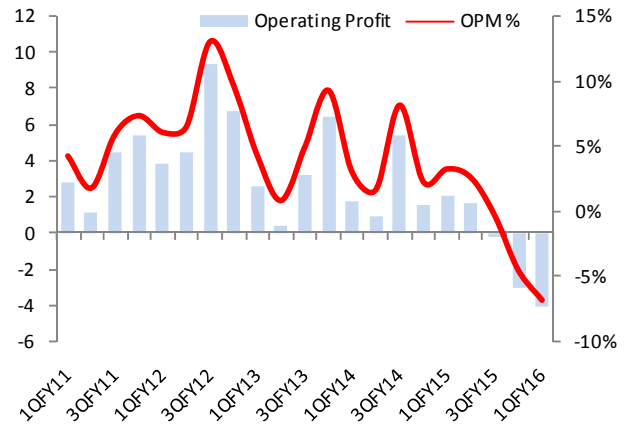
1. Capitalising on Sylvania’s design and engineering capabilities
2. Monetising Sylvania’s brands (Sylvania, Concord Marlin, Luminance, SLI Lighting, Zenith, and Linolite) and expanding the breadth of its product offerings in India and globally.
3. Entering new areas in Europe and Latin America and parts of the Far East and leveraging Sylvania’s distribution network in Europe to propel the growth of its switchgear business.

Sylvania - lighting and fixtures – revenue (Rs bn)

Operating profit and margin


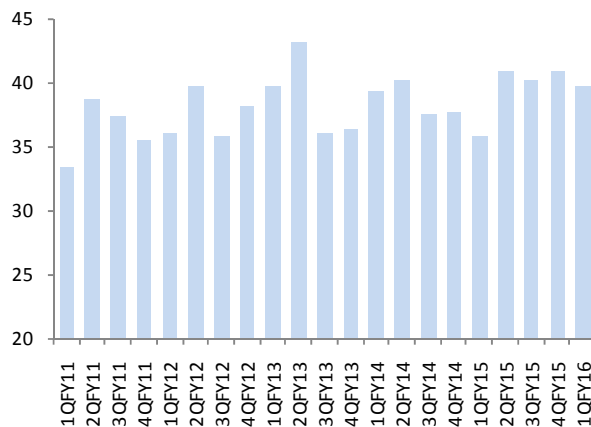
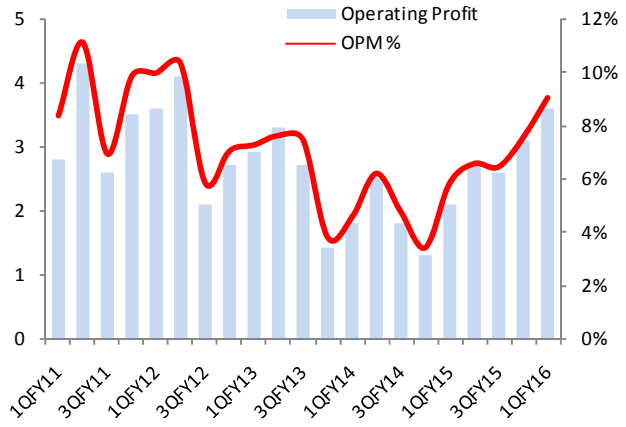
Source: Company, PhillipCapital India Research

The total consideration for the acquisition routed through HIL’s subsidiary Havells Netherlands was € 227mn. Of this, pension liability amounted ~€ 35mn, which was to be paid when it arose. Thus, against an immediate liability of € 192mn, Havells raised debt, which was a mix of non-recourse (€ 120mn) and recourse type (€ 72mn). Of the latter, ~€ 50mn was funded through equity infusion by way of ~4.2mn shares issued to Warburg Pincus at Rs 625 a share (F.V of Rs 10). However, things turned sour when

Sylvania started bleeding operationally during the economic downturn of FY09. The company defaulted on a couple of monthly repayments of working capital borrowings to a consortium of international banks. Consequently, Havells undertook a two-phased restructuring programme.

Sylvania Europe: Revenue (mn euros)

Sylvania Europe: EBITDA (mn euros) and OPM


Source: Company, PhillipCapital India Research

Sylvania LatAm & USA: Revenue (mn euros)

Sylvania LatAm & USA: EBITDA (mn euros) and OPM


Source: Company, PhillipCapital India Research

While Sylvania gradually stabilized operationally, the company has been encountering some headwinds in the form of provisioning for pension liabilities. The fluctuating bond yields compelled the company to make provisions for the shortfall in their liabilities. Consequently, Sylvania has been in the red on the net profit front for a few quarters in FY15. Importantly, since these provisions are a non-cash item, Sylvania has had no difficulty in meeting its debt repayment obligations.

However, a more pressing worry for Sylvania is the reducing traction in revenues as consumers switch from CFL to LED-based lighting. While the company is aligning its operations by stepping up its outsourcing of LED components and cutting down its CFL manufacturing operations, it could be a few quarters until a sustainable growth in revenues is achieved.

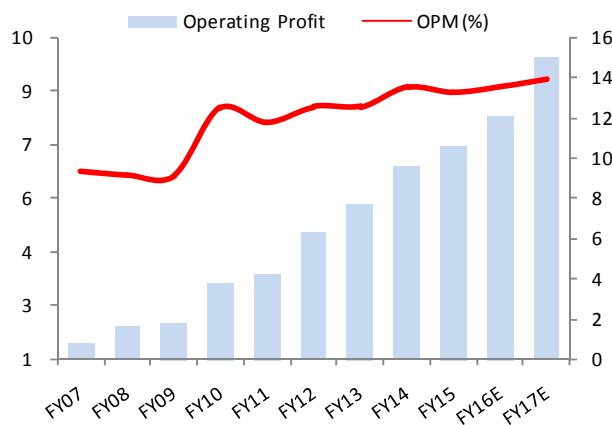
Financials

Havells' Indian operations have always been on a firm footing, clocking consistent improvement in revenues over the past six years. Backed by an aggressive advertising campaign and regular launches of products, its monthly revenues currently hover around Rs 4.3bn (vs. Rs 2.4bn five years ago). An increase in scale of operations, coupled with its focus on product quality and tight controls on costs, has ensured that its OPM has inched up 150bps — from FY11 to 13.3% in FY15. In its international operations, Sylvania's operations and financials have been a mixed bag. While the operational performance of the company has been satisfactory, developments on the pension liability have negatively impacted overall numbers.

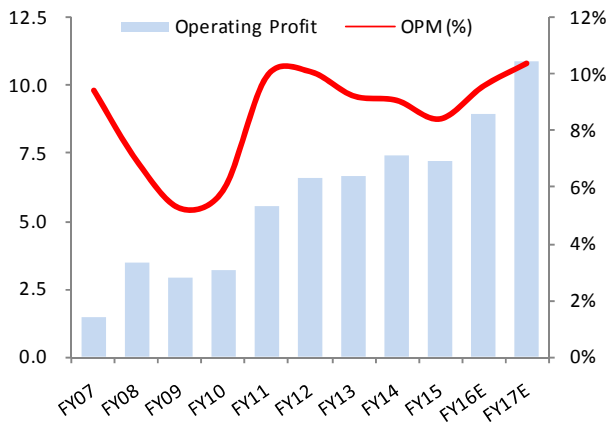
We expect Havells' domestic revenues in FY16 at Rs 58bn, with an OPM of 13.5% and Rs 5bn in PAT. The muted state of the economy will reflect in the overall performance of the company across its traditional verticals (cables and wires, lighting, switchgear); however, fresh momentum could emerge because of two reasons:

1. **Increasing penetration:** Havells is augmenting its dealer network in India's quality and price-conscious hinterland, currently serviced by the unorganized sector. The management is simultaneously bolstering its after-sales service network in new geographies in order to enhance customer experience.
2. **Added focus on new price segments:** While the company has traditionally been associated with products from the premium segment, Havells is gradually extending the price points it addresses across several key product categories. It has already achieved price segmentation into the economy and luxury sub-segments in product lines such as switchgear and fans. The company plans to extend this strategy to other product lines as well.

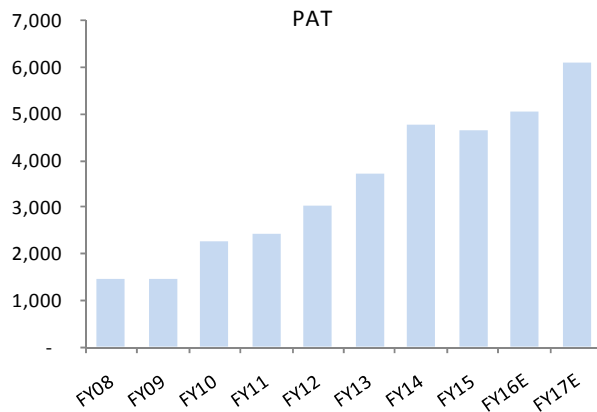
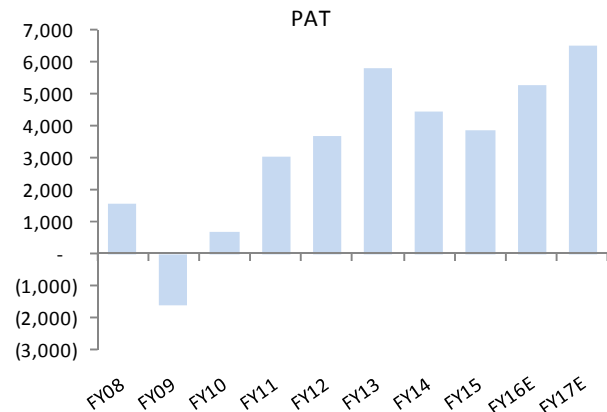
S.A. - OP (Rs bn) and margin trend (%)



Cons. - OP (Rs bn) and margin trend (%)



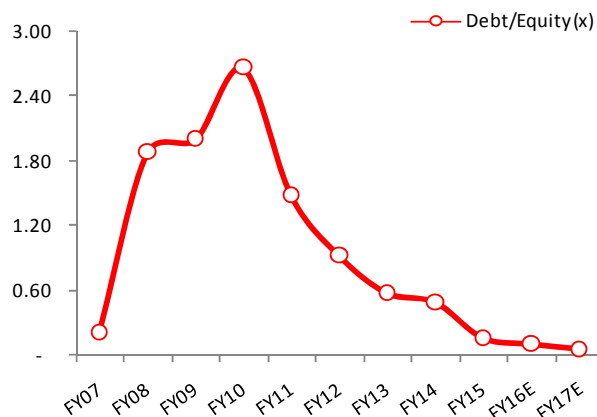
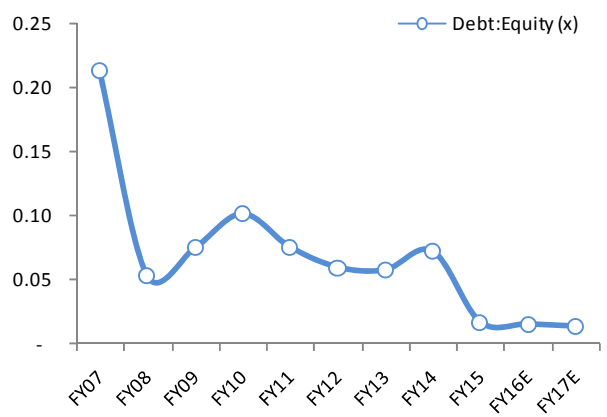
Source: Company, PhillipCapital India Research

S.A. PAT (Rs bn)

Cons. PAT (RS bn)


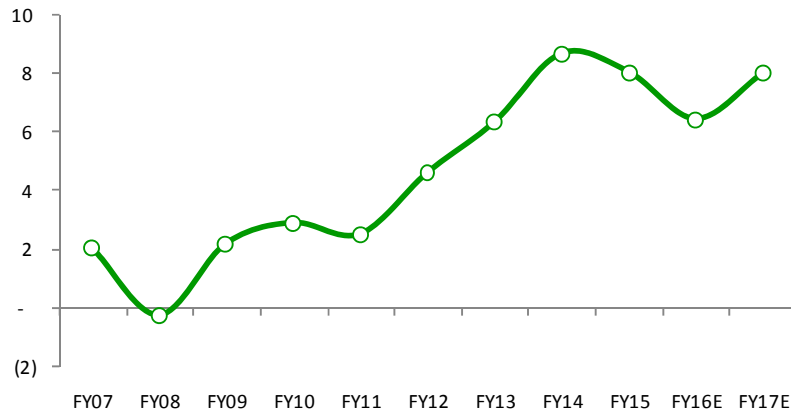
Source: Company, PhillipCapital India Research

We expect Havells to maintain the tempo in revenue growth and cash-flow generation with FY16 domestic revenues and EBIDTA at Rs 58bn and Rs 7.8bn and PAT at Rs 5bn. About Sylvania, we are not very hopeful of a recovery in Europe and see revenues settling at € 518mn in FY16. While sales might see a marginal dip in Europe, revenues from Latin America could take up the slack. On the profitability front, we expect a combination of cost control measures in Europe coupled with operating leverage in the Americas to enable the company to clock € 16mn in FY16 EBIDTA, without accounting for any extraordinary items. The crucial factor is the generation of sustainable cash flows, which would enable Havells to meet Sylvania’s debt-reduction obligations without necessitating the latter’s recapitalisation.

We expect the company to register consolidated revenues of Rs 94bn and Rs 105bn in FY16 and FY17 respectively, EBIDTA at ~Rs 9bn and Rs 10.8bn, and corresponding PAT at Rs 5.3bn and Rs 6.4bn.

S.A debt/ equity

Cons. debt /equity


Source: Company, PhillipCapital India Research

Cash from operations trend


Source: Company, PhillipCapital India Research

Outlook and valuations

Havells' domestic business has an extremely impressive growth record. It is indeed creditable that the company has increased its monthly revenues from Rs 1.4bn in FY07 to Rs 4.4bn at present without leveraging its balance sheet. While Sylvania's sedate performance would prove to be a drag on overall return ratios, we believe that the international business will not require any infusion of cash from the parent and will be able to meet its debt repayment obligations from its own cash flows. However, in the event of an unforeseen recovery in Europe, the business could generate some operating leverage and cash flows. Sylvania's performance in Latin America holds promise and could improve the profitability profile of the entity over the next 2-3 years. We have ascribed an earnings multiple of 28x to the standalone FY17 profits of Rs 6bn while assigning a multiple of 6x to Sylvania's FY17 EBIDTA of Rs 475mn. We arrive at a target of Rs 297, which represents an upside of 15% from current levels. We initiate coverage with a BUY recommendation.

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	81,858	85,698	93,952	105,664
Growth, %	12.9%	4.7%	9.6%	12.5%
Raw Material expenses	46,398	48,292	52,758	59,635
Operating expenses	17,167	18,316	19,539	21,457
Employee expenses	10,869	11,875	12,632	13,515
EBITDA (Core)	7,425	7,215	9,023	11,056
Growth, %	11.0%	-2.8%	25.1%	22.5%
Margin, %	9.1%	8.4%	9.6%	10.5%
Depreciation	1,155	1,389	1,650	1,844
EBIT	6,270	5,827	7,373	9,213
Growth, %	12.1%	-7.1%	26.5%	25.0%
Margin, %	7.7%	6.8%	7.8%	8.7%
Interest paid	741	642	250	171
Other Non-Operating Income	413	505	400	400
Pre-tax profit	5,941	5,690	7,522	9,441
Tax provided	1,478	1,836	2,181	2,787
Profit after tax	4,463	3,854	5,342	6,655
(-) Exceptional Expenses				
Net Profit	4,463	3,854	5,342	6,655
Growth, %	15.3%	-13.7%	38.6%	24.6%
Margin, %	5.5%	4.5%	5.7%	6.3%
Net Profit (adjusted)	4,463	3,854	5,342	6,655

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	8,819	7,775	10,249	14,485
Debtors	10,005	6,232	6,785	7,631
Inventory	14,934	13,663	14,863	16,556
Loans & advances	2,920	2,304	2,304	2,304
Other current assets	197	1,972	1,972	1,972
Total current assets	36,876	31,946	36,174	42,948
Gross fixed assets	36,460	37,133	38,332	39,442
Less: Depreciation	20,451	21,840	23,490	25,334
Add: Capital WIP	439	500	482	490
Net fixed assets	16,447	15,793	15,325	14,598
Total assets	53,323	47,739	51,498	57,547
Current liabilities	20,630	18,690	20,053	22,338
Provisions	7,326	8,046	8,046	8,046
Total current liabilities	27,957	26,735	28,098	30,383
Debt	8,240	2,960	2,260	1,560
Deferred Tax Liability	467	-138	-138	-138
Total liabilities	36,663	29,557	30,220	31,805
Paid-up capital	624	624	624	624
Reserves & surplus	16,036	17,557	20,654	25,117
Shareholders' equity	16,660	18,182	21,278	25,741
Total equity & liabilities	53,323	47,739	51,498	57,547

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Pre-tax profit	5,941	5,690	7,522	9,441
Depreciation	1,155	1,389	1,650	1,844
Chg in working capital	1,719	2,664	(390)	(254)
Total tax paid	(1,336)	(1,836)	(2,181)	(2,787)
Other operating activities	1,201	137	(150)	(229)
Cash flow from operating activities	8,681	8,043	6,452	8,015
Capital expenditure	(1,733)	(1,533)	(1,182)	(1,117)
Other investing activities	(2,029)	505	400	400
Cash flow from investing activities	(3,762)	(1,029)	(782)	(717)
Free cash flow	4,919	7,014	5,670	7,298
Debt raised/(repaid)	(748)	(5,279)	(700)	(700)
Dividend (incl. tax)	(1,826)	(2,192)	(2,192)	(2,192)
Other financing activities	(524)	(642)	(250)	(171)
Cash flow from financing activities	(3,097)	(8,113)	(3,142)	(3,063)
Net chg in cash	1,822	(1,098)	2,528	4,235

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
Dil. EPS (INR)	7.2	6.2	8.6	10.7
Growth, %	-23%	-83%	39%	25%
Book NAV/ FD share (INR)	26.7	29.1	34.1	41.3
CEPS (INR)	45.0	8.4	11.2	13.6
CFPS (INR)	13.9	12.9	10.3	12.8
DPS (INR)	2.5	3.0	3.0	3.0
Return ratios				
Return on assets (%)	17.6	18.3	22.8	24.5
Return on equity (%)	28.7	22.1	27.1	28.3
Return on capital employed (%)	27.5	27.3	35.0	38.0
Turnover ratios				
Sales/Total assets (x)	3.3	4.2	4.2	4.0
Sales/Net FA (x)	7.3	7.6	8.7	10.4
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Fixed capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	44.0	26.2	26.0	26.0
Inventory days	72.2	62.7	63.0	63.0
Loans, Adv (days)	13.7	18.0	16.4	14.6
Payable days	99.8	85.7	85.0	85.0
Working capital days	30.2	21.1	20.4	18.6
Liquidity ratios				
Current ratio (x)	1.3	1.2	1.3	1.4
Quick ratio (x)	0.8	0.7	0.8	0.9
Interest cover (x)	8.6	9.2	28.9	50.6
Dividend cover (x)	2.9	2.1	2.9	3.6
Total debt/Equity (%)	0.5	0.2	0.1	0.1
Net debt/Equity (%)	(0.0)	(0.3)	(0.4)	(0.5)
Valuation				
PER (x)	36.2	41.9	30.3	24.3
PEG (x) - y-o-y growth	(1.6)	(3.1)	0.8	1.0
Price/Book (x)	9.7	8.9	7.6	6.3
Yield (%)	1.0	1.2	1.2	1.2
EV/Net sales (x)	0.4	1.8	1.6	1.4
EV/EBITDA (x)	4.0	20.3	16.3	13.0
EV/EBIT (x)	4.7	24.8	19.8	15.5

Finolex Cables Ltd (FNXC IN)

In a sweet spot

INDIA | MIDCAP-ELECTRICALS | Initiating Coverage

13 October 2015

As one of India's largest manufacturers of electrical wires & cables (EWC), Finolex has the most extensive product portfolio in the industry at present. It is an established player with market leadership in southern and western India, and has gradually expanded its reach to other parts of the country over the past couple of years. While largely an EWC player, Finolex also manufactures telecommunication cables.

Formidable scale and reach

Finolex has one of the largest distribution networks in the domestic EWC segment. It has 3,500 dealers and distributors in its traditional strongholds of south and west India, with over 500 channel partners in the north. Its market leadership in southern and western India and steadily improved EBIDTA over the years, despite negligible advertising, is a testament to its brand equity and customer recall.

Capacity expansion and new product lines

It has planned a capex of Rs 1.25bn in FY16 for production of fans and expansion of its core EWC capacity. Along with a gradual ramp up of products like switches and LED lights, Finolex should be able to leverage its extensive channel network to effect growth in revenues and cash flows. This should also bring down the logistics costs of distribution in new territories, thereby becoming margin-accretive in the long run. This could also set the stage for a possible foray into other allied products at a later stage, through the outsourcing model.

Derivative contracts wrapped up

Over FY06-13, Finolex suffered losses of Rs 3.1bn on derivative contracts, entered into originally as a hedge to its ECB. This constituted a serious overhang on valuations, as the extent of losses suffered because of these derivatives was uncertain and fluctuated wildly. However, over the years, the company has gradually wound down such exposure and has wrapped up all such instruments in FY15. With no risk to profits and cash flows, the company would be able to command better valuation multiples.

Valuation

As one of the oldest in the Indian EWC space, Finolex has successfully demonstrated the robustness of its business model through steady operational profitability. Having put its derivative losses behind, the company continues focus on expanding scale in existing products, in addition to launching new products and widening its already extensive distribution network. The lateral expansion of its product profile and increased channel sweating in conjunction with a strong velocity of working capital churn have the potential to improve its revenue streams significantly. At the CMP of Rs 232, the stock quotes at a discount to its peers in the EWC space, rendering it a strong candidate for re-rating. Hence, we initiate coverage with a Buy recommendation and price objective of Rs 323 (based on our FY17 estimates), which represents an upside of 39% from its current price.

BUY

CMP RS 232

TARGET RS 323 (+39%)

COMPANY DATA

O/S SHARES (MN) :	153
MARKET CAP (RSBN) :	35
MARKET CAP (USDBN) :	0.5
52 - WK HI/LO (RS) :	306 / 212
LIQUIDITY 3M (USDMN) :	0.4
PAR VALUE (RS) :	2

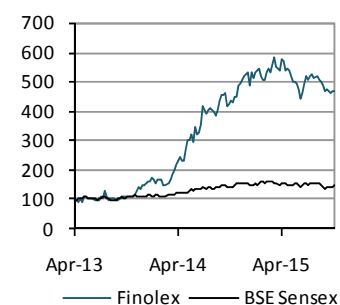
SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	35.9	35.9	35.9
FII / NRI :	8.2	9.7	9.4
FI / MF :	14.2	12.8	12.3
NON PRO :	7.9	8.0	7.9
PUBLIC & OTHERS :	29.8	29.8	30.5

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-1.9	-8.5	5.8
REL TO BSE	-6.9	-5.7	3.5

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	24,491	25,743	30,301
EBIDTA	2,598	2,868	3,808
Net Profit	1,987	2,036	2,748
EPS, Rs	13.0	13.3	18.0
PER, x	17.9	17.4	12.9
EV/EBIDTA, x	10.2	9.4	6.8
P/BV, x	2.8	2.5	2.2
ROE, %	16.8	15.1	17.8

Source: PhillipCapital India Research Est.

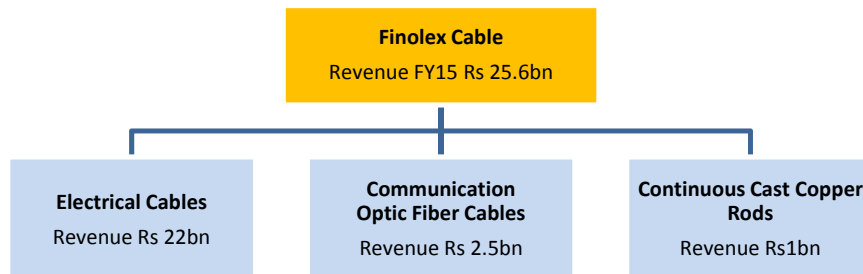
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Strong bouquet of products

Over the past several decades, Finolex has carved an enviable niche for itself in the domestic EWC market, characterised by fierce competition and sizeable presence of unregulated operators (~40% of the overall market). The soundness of its business model arises from its three pillars of operations: A comprehensive product basket, distribution reach and ‘best-in-class’ scale in manufacturing.

Finolex – revenue break up



Source: Company, PhillipCapital India Research

Comprehensive product portfolio

The company manufactures electrical wire, which make up 85% of its revenues. It has one of the most extensive product baskets in the EWC arena, with more than 4,500 SKUs in the range of 1.1kV to 66kV. Consequently, its products find numerous applications from household wiring to automobiles to intra-city power distribution. This, in turn, has enabled it to tap various end-user industries and diversify its clientele. The mix of distribution-based and institutional sales is ~60:40. The company also manufactures telecommunications cables (TC), which comprise 8% of its turnover. Here, its product repertoire extends from optic-fibre cables (OFC) to jelly-filled telecom cables (JFTC). This business is largely a tender-based institutional-buyer segment. The company also has minuscule sales of lamps, both CFL and LED, and electrical switches, which account for 1% of revenues and are sold through the distribution channels for EWC products.

Product profile

Electrical Cables	Communication Cables	Copper Rod	Lighting	Switchgear
1. Auto & battery wiring	1. Lan cables	1. Continuous cast copper rod	1. CFL	1. Household switches
2. UPS cables	2. Speaker & VSAT cables		2. FTL	2. Commercial grade switches
3. Underground LV & HV cables	3. JFTC & OFC			
4. Submersible pumps & electrical Motors	4. Co axial cables			

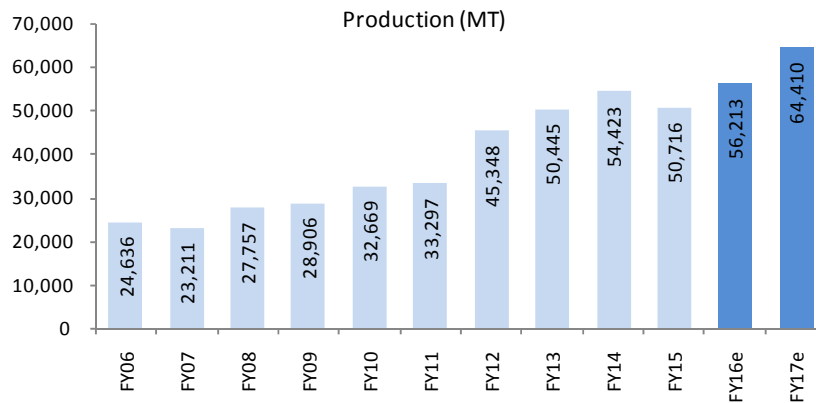
Superlative manufacturing scale and reach

With an estimated capacity of 3.1m ckm, the company is one of the top-three domestic manufacturers of wires and cables — only peers like Polycab and Havells have comparable manufacturing scale. Its various products in the EWC range are manufactured at its plants in Maharashtra and Goa. Interestingly, Finolex manufactures copper rods (CR), the raw material for its EWC products, thereby facilitating backward integration. A rated capacity of 60,000 tonnes and current utilisation of 55% allows it to control the quality and cost of its most crucial input. This also contributes to lower rejection rates and better throughput in the EWC operations.

Against the backdrop of its present manufacturing operations, it is hardly surprising that a bulk of its revenues results from western and southern India. Our channel checks have indicated that it has a formidable presence and strong brand recall in these regions. Additionally, it has a superlative reputation for product quality and is considered an industry benchmark. In FY15, it had ~3,500 distributors and dealers in

these geographical areas. Approximately 90% of its average monthly sales of Rs 1.8bn came from the west and south of India.

Chart: Electrical cables production (MT)



Source: Company, PhillipCapital India Research

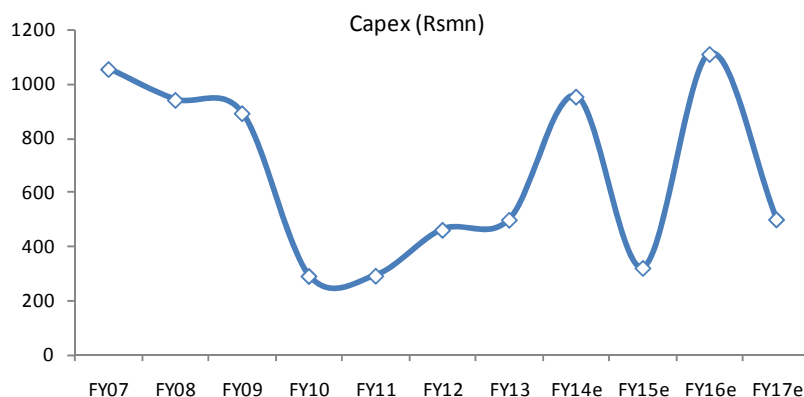
Promising expansions on the anvil

The management has outlined a three-pronged strategy for future growth. Finolex is gradually diversifying its geographical base of revenues by widening its dealer network in fresh territories in northern and central India. In the past several quarters, through the gradual addition of ~600 dealers and distributors, it has made tentative inroads with its EWC range in these regions.

The second leg of its strategy involves augmenting its existing EWC portfolio. The company has decided to increase capacities across its household wiring range and is also adding some products to its repertoire. The management has outlined a capex of Rs 1.2bn on expanding manufacturing capacities — While Rs 700m will be spent for installing a capacity of 2.4mn fans, the rest will be the cost for expansion of its existing EWC capacity.

The management is set to expand its product basket in order to improve its ‘channel-sweating’. With an envisaged a capex of Rs 700mn, Finolex is venturing into the manufacture of fans (capacity of 2.4mn fans p.a) by 4QFY16. It plans to simultaneously ramp up its existing sales of outsourced products like LED lighting products, switchgear, and lighting fixtures in a phased manner.

Capex trend



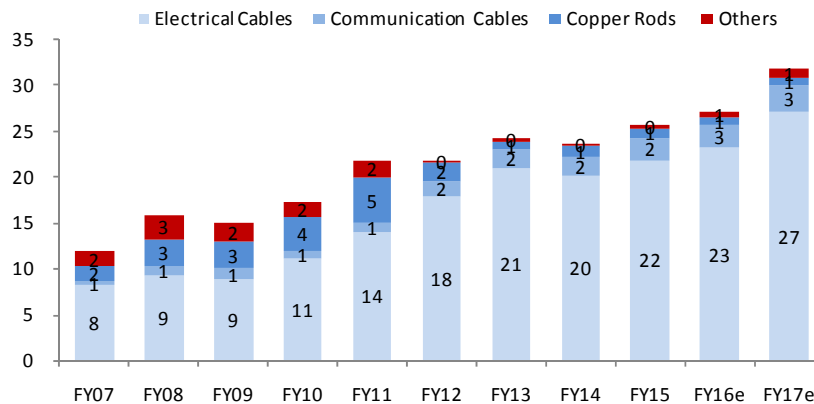
Source: Company, PhillipCapital India Research

Core business on a strong footing

Despite its rocky experience with forex derivatives, its focus on its core EWC business hasn't wavered. It has steadily expanded operations to capitalise on stable demand for these products. Consequently, the segment has registered a 16% CAGR in revenue over FY06-15. In this period, it has delivered 17% CAGR in segment profits, with the margin stabilising at ~12% over the past three years.

The noteworthy aspect here is that the company has achieved this growth without compromising its terms of trade or significant capex. In fact, core working capital over the years has steadily come down to ~45 days at present from ~60 days earlier.

Revenue break up trend

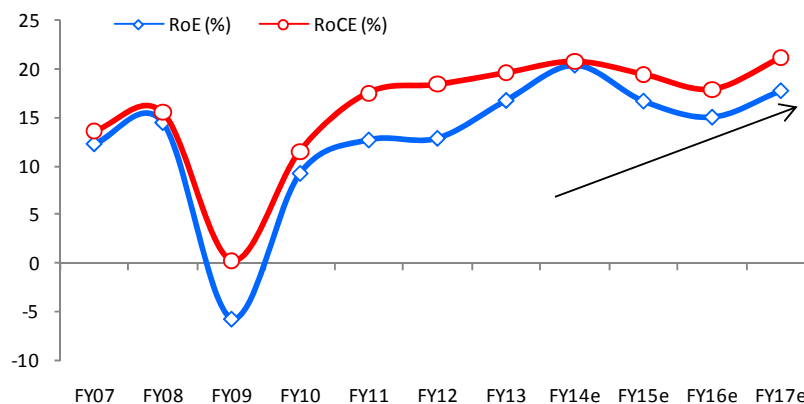


Source: Company, PhillipCapital India Research

Smaller businesses not a drain

As mentioned earlier, the company has three other businesses, which bring in ~15% of revenues. The largest of these is the telecom cables (TC) business, set up in the 1980s. Its products are part of its legacy business and are self-sustaining in terms of demand and working capital churn. The profit margin in this business is pedestrian at best, and the RoCE has fluctuated wildly, depending on price and profitability. The TC segment comprises only 10% of its revenue and doesn't significantly alter its overall return ratios. The copper rods business (CR) is minuscule (~4% of revenue) and commands very low margins. However, it plays a vital part in the EWC and TC businesses, as it facilitates backward integration in these divisions apart from ensuring stable throughput and quality control.

ROCE and ROE trend

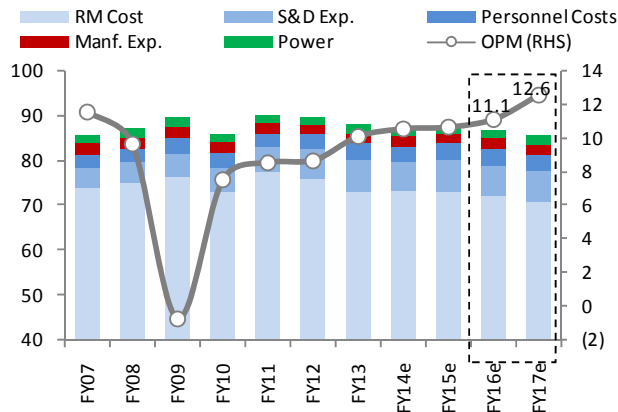


Source: Company, PhillipCapital India Research

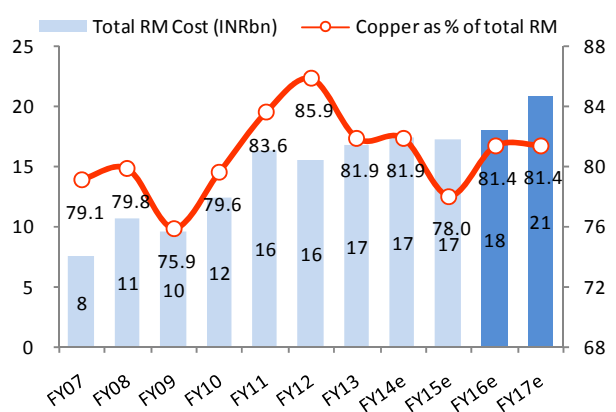
Financials

As one of the most reputed companies in the domestic EWC segment, Finolex has consistently expanded its product profile and scale, thereby monetising its brand to the hilt. Its operating performance has closely mirrored the fortunes of the Indian economy over the past 10 years, from FY06 to FY15, when its revenues and EBIDTA rose at CAGRs of 16% each. Interestingly, even at the PAT level, it registered 20% CAGR in the past 10 years, conveying that it has comfortably managed to tide over the fiasco of forex derivatives and sudden shock of commodity prices in FY09.

Operating matrix

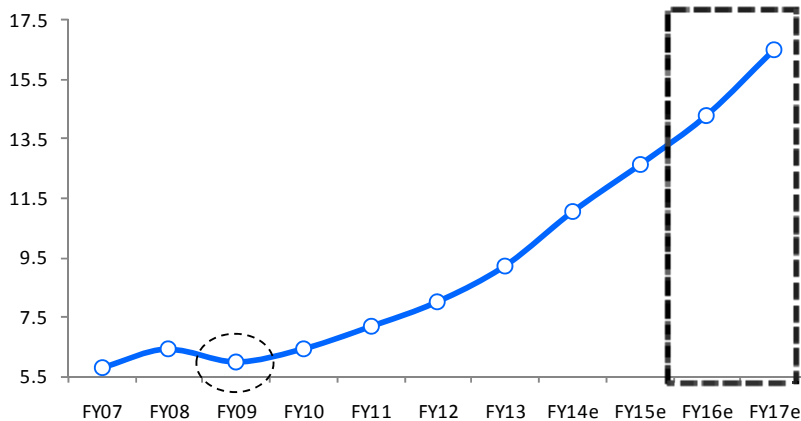


Copper as a major RM cost



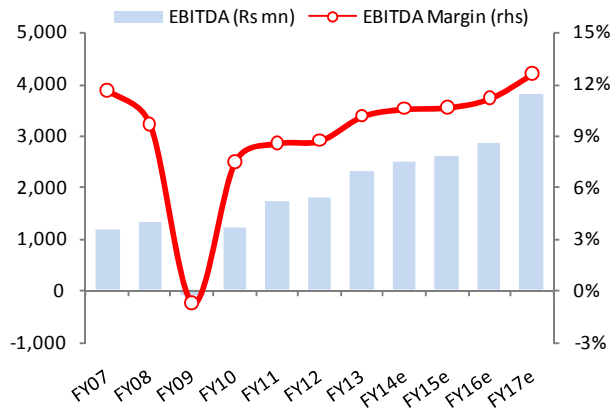
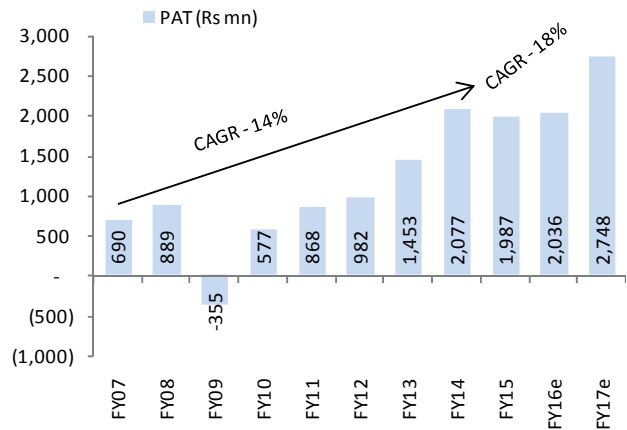
Source: Company, PhillipCapital India Research

Continuous improvement in balance sheet – Network trend...



Source: Company, PhillipCapital India Research

While it lost ~Rs 3.6bn from FY08 to FY13 in the currency derivatives fiasco, the company has always been operationally firm. Finolex earned a cumulative EBIDTA of Rs 5.7bn during the same period and undertook a capex of Rs 3.8bn while deleveraging by Rs 1bn. While the balance sheet did come under some pressure, Finolex managed to contain interest payouts (as percentage of revenue) to 1.5%-1.8%, and always generated cash flows from operations. The exception in both cases was FY09, when it (and its peers) grappled with severe global headwinds arising from the financial meltdown.

EBITDA and margin trend

PAT CAGR at 18% from FY15 to FY17


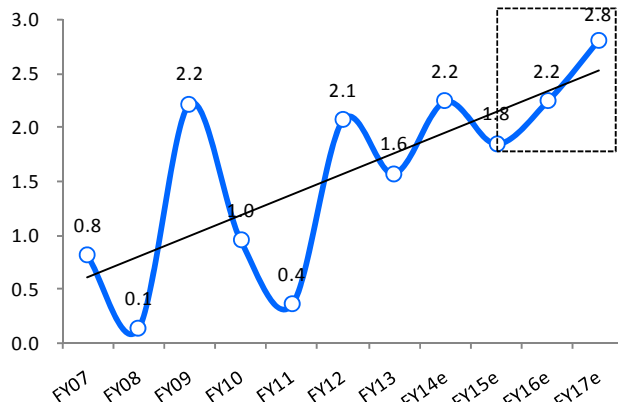
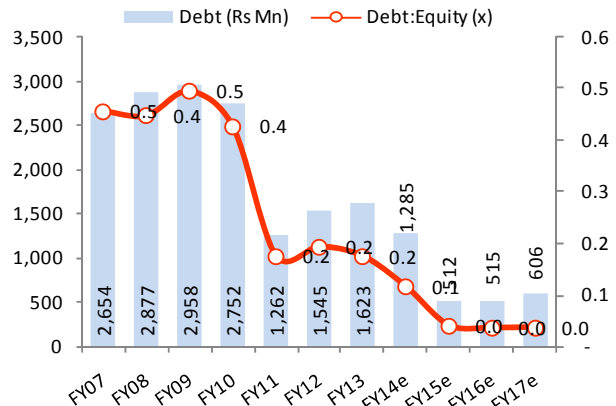
Source: Company, PhillipCapital India Research

A closer inspection of its performance over the past decade reveals that with the exception of FY09, profitability has been fairly steady, hovering at around 10% — this is extremely creditable, considering the commoditised nature of the primary product and the keenly competitive business landscape. Additionally, it has consistently maintained creditable return ratios over the past three years through a mix of judicious capex and steady asset sweating.

Its foray into fans and imminent ramp up of utilization in its EWC business show promise. The expansion of its product basket through outsourced products puts it in a position to pump its channels, thereby increasing ‘channel-throughput’. This has the potential to not only boost revenues and cash flows, but also return ratios from the ruling levels of ~19-20%.

We expect Finolex to clock revenue of Rs 26bn (5% yoy growth) in FY16, while its OPM should come in at 11.2% (a 70bps yoy improvement), following efficiencies derived from improved scale at its plants in Pune and Goa; it could end the fiscal (FY16) with Rs 2.1bn in profits.

However, FY17 is where we see traction emerging in its revenues and cash flows. We estimate 18% growth in turnover to Rs 30bn, as it commissions and stabilises its fans facility. The introduction of outsourced products, greater scale, and deeper market penetration should facilitate margin improvement of 120bps to 12.6% and net profits of Rs 2.9bn.

Net cash flow

Debt:Equity to remain negligible


Source: Company, PhillipCapital India Research

Outlook and valuations

Finolex has successfully exorcised the spectre of its derivatives trades and is firmly focused on leveraging its distribution network through a judicious mix of geographical and product expansion. Despite the economic slump and commodity price correction, the company has maintained a strong balance sheet and robust cash flows. Introduction of new products will enable the company to monetize its vast distribution network, which in turn, should bolster the float generation in the business.

In the backdrop of its operational strengths and financial soundness, we believe that the valuation gap between Finolex and its peers in the electrical industry will narrow. At the CMP of Rs 232, the stock trades at a P/E of 12.9x and EV/EBIDTA of 6.8x discounting its FY17 earnings. Assigning an earnings multiple of 18x, we arrive at a price target of Rs 323, representing a 39% upside. Hence, we initiate coverage with a BUY recommendation.

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	23,590	24,491	25,743	30,301
Growth, %	3.9%	3.8%	5.1%	17.7%
Raw Material expenses	17,328	17,884	18,538	21,478
Operating expenses	2,932	3,070	3,303	3,857
Employee expenses	848	940	1,034	1,158
EBITDA (Core)	2,482	2,598	2,868	3,808
Growth, %	8.2%	4.7%	10.4%	32.8%
Margin, %	11%	11%	11%	13%
Depreciation	484	640	754	809
EBIT	1,998	1,958	2,115	2,999
Growth, %	9.2%	-2.0%	8.0%	41.8%
Margin, %	8%	8%	8%	10%
Interest paid	145	137	51	56
Other Non-Operating Income	484	585	450	450
Non-recurring Items	104	225	0	0
Pre-tax profit	2,337	2,406	2,513	3,393
Tax provided	363	645	478	645
Profit after tax	1,973	1,761	2,036	2,748
Net Profit	1,973	1,761	2,036	2,748
Growth, %	17.3%	-10.7%	15.6%	35.0%
Margin, %	8.4%	7.2%	7.9%	9.1%
Net Profit (adjusted)	1,973	1,761	2,036	2,748
No. of Eq. Sh O/S (m nos)	153	153	153	153

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	649	1,384	2,519	4,770
Debtors	1,452	1,186	1,355	1,595
Inventory	3,524	3,186	3,177	3,680
Loans & advances	918	935	935	935
Other current assets	1	0	0	0
Total current assets	6,543	6,692	7,986	10,980
Investments	4,031	4,942	4,942	4,942
Gross fixed assets	10,612	10,975	11,752	12,252
Less: Depreciation	5,653	6,338	7,091	7,900
Add: Capital WIP	107	67	400	400
Net fixed assets	5,066	4,705	5,061	4,752
Total assets	15,640	16,338	17,989	20,674
Current liabilities	2,117	2,408	2,415	2,796
Provisions	909	469	469	469
Total current liabilities	3,026	2,877	2,884	3,266
Debt	1,285	512	515	606
Deferred Tax Liability	295	301	301	301
Total liabilities	4,606	3,690	3,699	4,172
Paid-up capital	306	306	306	306
Reserves & surplus	10,728	12,342	13,985	16,196
Shareholders' equity	11,034	12,648	14,290	16,502
Total equity & liabilities	15,640	16,338	17,989	20,674

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Pre-tax profit	2,440	2,631	2,513	3,393
Depreciation	484	640	754	809
Chg in working capital	-152	-470	-153	-361
Total tax paid	-219	-474	-478	-645
Other operating activities	-318	-482	-399	-394
Cash flow from operating activities	2,236	1,845	2,238	2,803
Capital expenditure	-953	-321	-1,110	-500
Chg in investments	-46	297	0	0
Other investing activities	327	336	450	450
Cash flow from investing activities	-672	312	-660	-50
Free cash flow	1,564	2,157	1,578	2,753
Debt raised/(repaid)	-356	-203	2	91
Dividend (incl. tax)	-214	-286	-394	-537
Other financing activities	-41	89	-51	-56
Cash flow from financing activities	(611)	(401)	(443)	(502)
Net chg in cash	954	1,757	1,136	2,251

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
Dil. EPS (INR)	13.6	13.0	13.3	18.0
Growth, %	43.0	(4.4)	2.5	35.0
Book NAV/ FD share (INR)	72.1	82.7	93.4	107.9
CEPS (INR)	16.7	17.2	18.2	23.3
CFPS (INR)	14.6	12.1	14.6	18.3
DPS (INR)	1.6	1.8	2.2	3.0
Return ratios				
Return on assets (%)	12.6	10.8	11.3	13.3
Return on equity (%)	20.5	16.8	15.1	17.8
Return on capital employed (%)	20.8	19.5	18.0	21.2
Turnover ratios				
Sales/Total assets (x)	2.0	1.9	1.8	1.8
Sales/Net FA (x)	5.1	5.6	5.8	7.3
Working capital/Sales (x)	0.1	0.2	0.2	0.3
Fixed capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	22.2	17.4	18.0	18.0
Inventory days	60.1	52.4	50.0	50.0
Loans, Adv (days)	14.0	13.7	13.1	11.1
Payable days	36.1	39.6	38.0	38.0
Working capital days	60.2	44.0	43.1	41.1
Liquidity ratios				
Current ratio (x)	2.2	2.3	2.8	3.4
Quick ratio (x)	1.0	1.2	1.7	2.2
Interest cover (x)	18.7	20.2	55.3	64.5
Dividend cover (x)	8.5	7.2	6.1	6.0
Total debt/Equity (%)	0.1	0.0	0.0	0.0
Net debt/Equity (%)	0.1	(0.1)	(0.1)	(0.3)
Valuation				
PER (x)	17.1	17.9	17.4	12.9
PEG (x) - y-o-y growth	0.4	(4.1)	7.0	0.4
Price/Book (x)	3.2	2.8	2.5	2.2
Yield (%)	0.7	0.8	0.9	1.3
EV/Net sales (x)	1.4	1.3	1.2	1.0
EV/EBITDA (x)	11.4	10.2	9.4	6.8
EV/EBIT (x)	13.6	12.7	12.2	8.4

V-Guard Industries Ltd (VGRD IN)

Breaking out of the south

INDIA | MIDCAP-ELECTRICALS | Initiating Coverage

13 October 2015

VGI is a leading player in household electrical and electromechanical products (wires, cables, stabilisers, geysers) with dominance in tier 2, 3 and 4 cities in southern India. It has a hybrid model, where it manufactures a third of the products it sells while outsourcing the rest. By virtue of its foray outside southern India and introduction of new products and variants, it has delivered impressive revenue/EBITDA CAGRs of 26%/21% over the past few years. Creditably, revenues accruing from markets outside southern India account for a third of its sales (vs. just 15% in FY10).

Extensive product profile

VGI's product range is specifically tailored to the populations of towns and rural areas, characterised by erratic power supply and high consumption of electrical white goods. Consequently, the company has a comprehensive range of products such as wires, cables, fans, and stabilisers, enabling it to capture a greater share of consumer spending on electrical goods.

Robust business model

VGI follows an 'asset-light' business model. It outsources manufacturing of 65-70% of its products to small-scale units, enabling it to focus on the design and development of products, in addition to sales and distribution. This minimizes its capex requirement, which is significant against the backdrop of the short lifecycle of consumer electrical goods, thereby generating high returns on capital and equity.

Geographical concentration of revenues steadily reducing

The company has steadily been expanding its operations into northern India in an effort to de-risk its geographical concentration of revenues as well as boost utilisation of its recently-established facilities in the region.

Core working capital intensity of business gradually coming down

The continuous expansion of its network outside south India had resulted in VGI's working capital settling at 69 days in FY15. The management has gradually whittled this down to 50 days over the last three years by slowly pruning its receivables and inventory-holding period. As operations gain critical mass in relatively newer markets, the company is confident of a further fall in its working capital requirements.

Valuation

VGI has successfully metamorphosed into a sizeable player in the electrical space. We believe that it is poised for further growth, given its expanding operations outside south India. We believe that any contraction in its working capital cycle would be crucial to a re-rating in the stock. At the CMP of Rs 908 it is trading too close to its fair valuations of 24x FY17 earnings. Hence, we recommend a NEUTRAL with a price target of Rs 919.

NEUTRAL

CMP RS 908

TARGET RS 919 (+1%)

COMPANY DATA

O/S SHARES (MN) :	30
MARKET CAP (RSBN) :	27
MARKET CAP (USDBN) :	0.4
52 - WK HI/LO (RS) :	1197 / 810
LIQUIDITY 3M (USDMN) :	0.3
PAR VALUE (RS) :	10

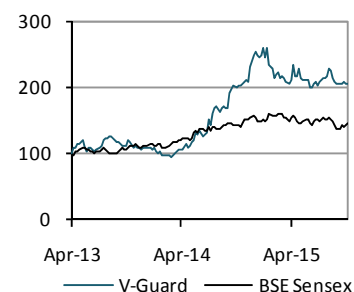
SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	66.0	66.0	66.1
FII / NRI :	19.1	19.3	20.1
FI / MF :	5.8	5.3	4.4
NON PRO :	2.5	2.4	12.7
PUBLIC & OTHERS :	7.4	7.7	7.8

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	0.4	-0.7	1.4
REL TO BSE	-4.6	2.1	-1.0

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	17,459	20,234	24,132
EBIDTA	1,330	1,591	1,969
Net Profit	707	887	1,143
EPS, Rs	23.7	29.7	38.3
PER, x	38.3	30.5	23.7
EV/EBIDTA, x	20.3	16.9	13.5
P/BV, x	7.2	6.0	5.0
ROE, %	20.3	21.5	23.0
Debt/Equity (%)	0.2	0.2	0.1

Source: PhillipCapital India Research Est.

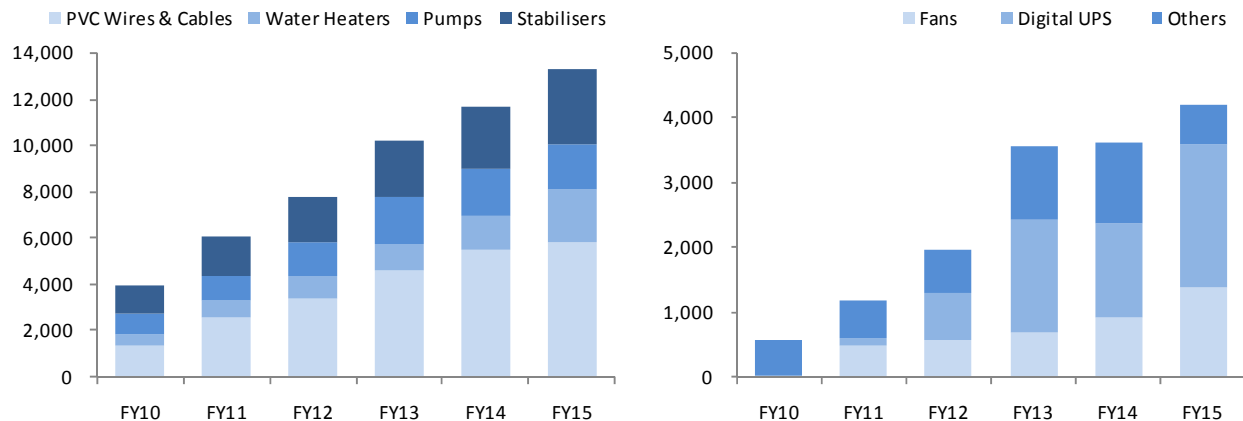
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Extensive product basket

VGI has forged its reputation by marketing products tailored to semi-urban agglomerations as well as for in rural clusters in southern India, characterised by erratic electricity supply and conspicuous consumption of white goods (televisions, air conditioners, refrigerators). Its products encompass a large part of the value chain, ranging from cables, wires, and solar water heaters to electrical appliances such as stabilisers, UPSs, water heaters, pumps, and fans. Apart from regularly upgrading its products, the company follows the practice of launching products to capture a greater portion of spending on household electricals. This policy of having a well-rounded product basket has enabled it to emerge as one of the market leaders in southern India, and translated to consistent revenue growth over the years.

VGI Sales break-up (Rs mn)



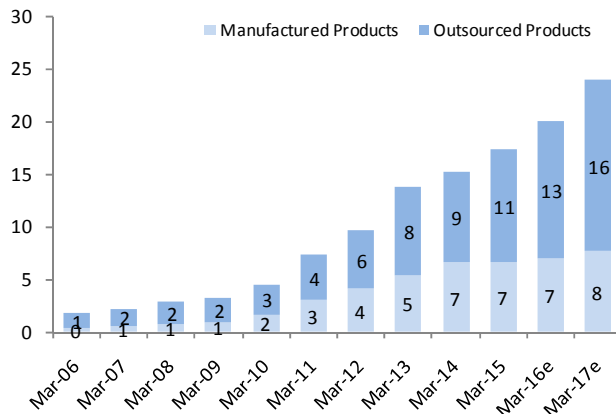
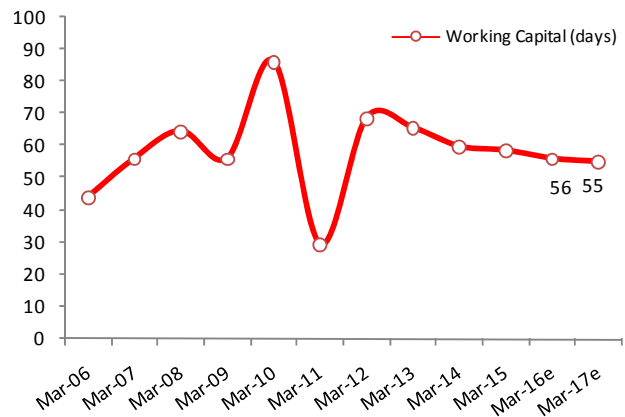
Source: Company, PhillipCapital India Research

Asset-light model

VGI outsources the manufacturing of ~60% of its product range, while concentrating on product design and aesthetics. This is of particular significance given the shortening lifecycle of consumer electrical products. This has enabled it to rationalise its capex requirement and concentrate on designing and launching products at regular intervals, in addition to advertising and distribution.

VGI operates through 536 distributors, 8,000 retailers and 235 service centres across the country. The ability to launch competitively priced and appropriately designed products, coupled with scaling-up of its sales network in the past several years, has enabled it to register a 30% CAGR in revenue and profit in the last seven years.

It tries to match its receivables and payables cycles of 50 days and 80 days with an inventory position of 60 days. This is a sharp improvement from FY12, when it had made a foray outside southern India on a large scale. Its working capital cycle had then ballooned to 70+ days due to increased credit to distributors and more inventory in the system. This situation has been gradually remedied with the increasing acceptance of the company's brand and products. As the company ramps up its sales, we believe it will curtail the need to increase working capital by resorting to bill discounting. Additionally, it is slowly increasing the incidence of channel financing to help push the sales of its products.

VGI: Growth in outsourced product revenue

VGI: Working capital cycle


Source: Company, PhillipCapital India Research

Geographical diversification of revenues

Until FY09, VGI primarily operated in southern India (with minuscule sales in the rest of the country). This was because of an extremely mature sales-and-distribution network in the region, coupled with superior brand equity, which enabled it to grow without much effort. Additionally, its network and pedigree allowed it to test the market and launch products easily without much competition from domestic and international brands. In FY09, it decided to increase the scale of its operations and venture outside southern India. Apart from catering to the untapped demand from the rural hinterland outside southern India, another underlying reason for the geographical diversification was to reduce the regional concentration of revenues. In its new territories, it adopted the strategy to market and sell products that were well accepted in southern India. This strategy has paid off — in FY15, while ~67% of sales originated from the four southern Indian states of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu, the remaining 33% (Rs 5.8bn) came from the rest of India, a steep improvement from Rs 139mn in FY08.

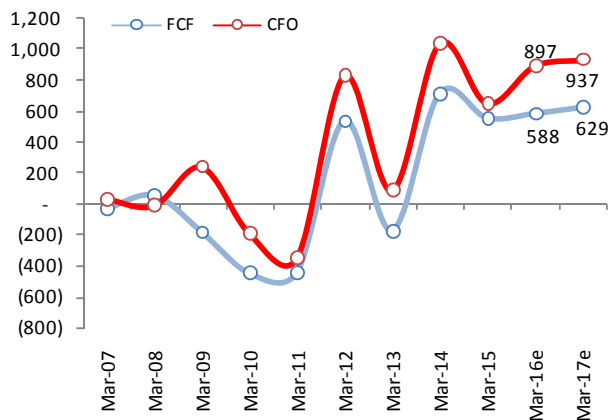
VGI: Geographical break-up of revenues


Source: Company, PhillipCapital India Research

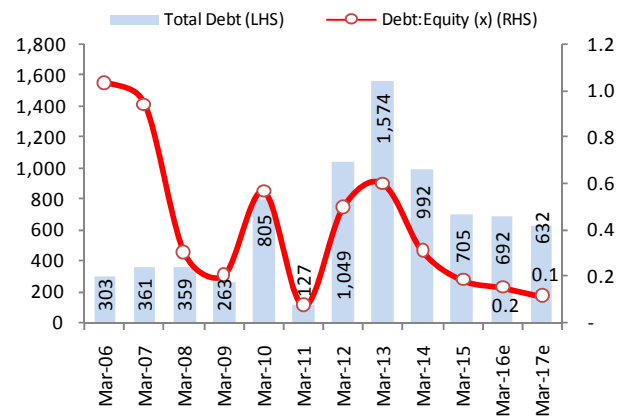
Strong balance sheet, cash flows to improve

Despite its heady growth in the past several years, VGI has maintained a healthy debt-equity ratio. At its peak, in FY06, its gearing ratio reached 1x. Ever since, the management has used cash flows to deleverage its balance sheet and pay off term debt. At present, the company has term debt of Rs 285mn on its books. It intends to pay this off in the next couple of years. Additionally, working capital borrowings now stand at Rs 285mn (June 2015), which is backed by receivables and inventories. This is a creditable reduction from Rs 1 bn in September 2012. Lastly, the gearing ratio is extremely comfortable given an implied debt-EBIDTA ratio of 0.5x. On the cash-flow front, with the exception of FY10-11 when the company was assiduously trying to ramp up sales, it has always posted positive operational cash-flows. We expect it to maintain this trend and see its 'free cash flow' (FCF) positive status sustaining FY16E-17.

VGI: FCF and cash from operation (CFO) trend



VGI: Debt: Equity to come down to 0.1x in FY17

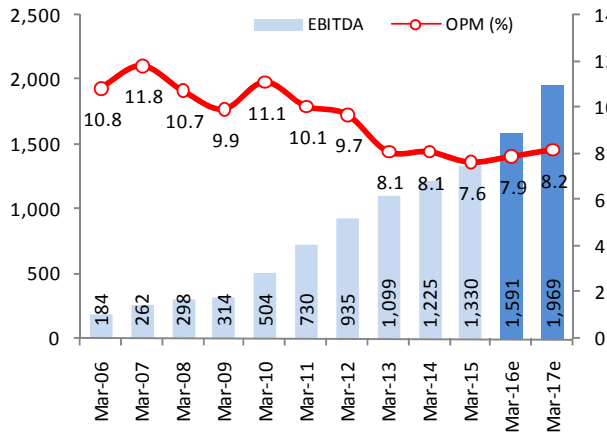
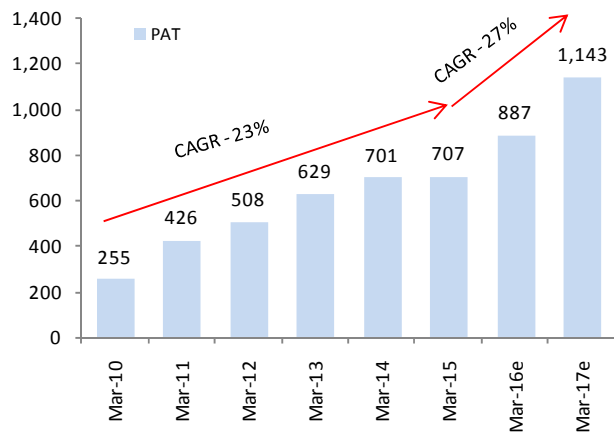


Source: Company, PhillipCapital India Research

Financials

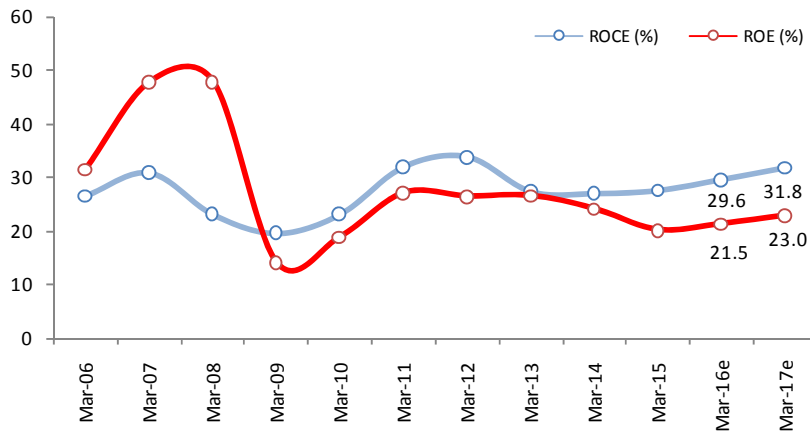
We estimate VGI to clock revenues of Rs 20.2bn (up 16%) in FY16 with an OPM of 7.9%. Topline growth would primarily come from higher sales of manufactured products (wires and cables, SWH and pumps in northern India), as well as an increase in sales of outsourced products by a similar percentage in southern India. As the company consolidates its foothold outside southern India, we expect its focus on sales of manufactured products to generate slight operating leverage. Simultaneously, we estimate sales of outsourced product growth to maintain similar momentum. Additionally, as new branches set up in these territories achieve breakeven, margins should improve gradually. Hence, we expect the improvement in margins to be 30bps in FY16 to 7.9% and EBIDTA and net profit at Rs 1.6bn and Rs 887mn.

We believe that the additional working capital required because of the jump in sales would be met internally without much working capital borrowing. This, coupled with the absence of capex and better asset sweating, should see the company maintain its FCF positive status into FY16. In FY17, we expect revenues to be of Rs 24bn, and EBIDTA and OPM at Rs 2bn and 8.2%. We expect net profit at Rs 1.1bn, implying 29% growth.

VGI: EBITDA and OPM trend

VGI: PAT – CAGR trend


Source: Company, PhillipCapital India Research

While the company has always had superlative return ratios, we expect these metrics to sustain and improve slightly — the company’s RoCE should settle at ~30% in FY16-17 while RoNW would be >21% from FY16.

VGI: ROCE & ROE trend


Source: Company, PhillipCapital India Research

Outlook and valuations

VGI has successfully negotiated a tricky point in its existence by expanding its geographical base of operations while successfully managing its working capital funding. During FY10-11, its working capital predictably bloated. However, by rationalizing its operations after stabilizing itself in newer territories, it has returned to efficient working-capital levels. While we have factored in stable selling and distribution expenses into our calculations, higher utilisation of manufacturing capacities and a stable currency rate could generate a slight improvement in profitability in FY16-17. We are convinced that VGI will continue to successfully monetise its brand equity in southern India while increasing channel sweating in the rest of the country. At a CMP of Rs 908, the stock trades at an FY17 P/E of 23.7x and EV/EBIDTA of 13.5x. Assigning an earnings multiple of 24x, we arrive at a price target of Rs 919. At CMP, the stock is fairly valued —we initiate coverage with a NEUTRAL recommendation.

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	15,176	17,459	20,234	24,132
Growth, %	11.6%	15.0%	15.9%	19.3%
Raw Material expenses	11,300	12,901	14,860	17,710
Operating expenses	1,802	2,131	2,480	2,954
Employee expenses	848	1,097	1,303	1,498
EBITDA (Core)	1,225	1,330	1,591	1,969
Growth, %	11.5%	8.5%	19.6%	23.8%
Margin, %	8%	8%	8%	8%
Depreciation	120	154	173	188
EBIT	1,105	1,176	1,418	1,781
Growth, %	12.2%	6.4%	20.6%	25.5%
Margin, %	7%	7%	7%	7%
Interest paid	211	206	182	176
Other Non-Operating Income	48	45	40	40
Pre-tax profit	943	1,014	1,277	1,645
Tax provided	241	307	389	502
Profit after tax	701	707	887	1,143
Net Profit	701	707	887	1,143
Growth, %	11.5%	0.8%	25.5%	28.8%
Margin, %	4.6%	4.1%	4.4%	4.7%
Net Profit (adjusted)	701	707	887	1,143
No. of Eq. Sh O/S (m nos)	30	30	30	30

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	28	22	333	730
Debtors	2,121	2,437	2,698	3,083
Inventory	2,525	2,609	2,952	3,448
Loans & advances	379	545	545	545
Total current assets	5,053	5,613	6,528	7,806
Gross fixed assets	2,280	2,374	2,682	2,990
Less: Depreciation	618	773	945	1,134
Add: Capital WIP	35	35	35	35
Net fixed assets	1,697	1,636	1,772	1,891
Total assets	6,750	7,249	8,300	9,697
Current liabilities	2,161	2,239	2,589	3,078
Provisions	317	436	436	436
Total current liabilities	2,478	2,674	3,025	3,514
Debt	992	705	692	632
Deferred Tax Liability	95	92	92	92
Total liabilities	3,565	3,472	3,809	4,238
Paid-up capital	298	300	300	300
Reserves & surplus	2,886	3,478	4,191	5,160
Shareholders' equity	3,184	3,777	4,491	5,459
Total equity & liabilities	6,750	7,249	8,300	9,697

Source: Company, PhillipCapital India Research Estimates

Cash Flow

	FY14	FY15	FY16e	FY17e
Pre-tax profit	943	1,014	1,277	1,645
Depreciation	120	154	173	188
Chg in working capital	-23	-370	-253	-393
Total tax paid	-189	-307	-389	-502
Other operating activities	257	161	142	136
Cash flow from operating activities	1,108	653	949	1,075
Capital expenditure	-324	-94	-308	-308
Chg in investments	25	0	0	0
Other investing activities	19	45	40	40
Cash flow from investing activities	-280	-49	-268	-268
Free cash flow	828	604	680	807
Equity raised/(repaid)	0	1	0	0
Debt raised/(repaid)	-553	-287	-13	-60
Dividend (incl. tax)	-122	-157	-174	-174
Other financing activities	-243	-168	-182	-176
Cash flow from financing activities	(919)	(610)	(369)	(410)
Net chg in cash	(91)	(6)	311	397

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
Dil. EPS (INR)	23.5	23.7	29.7	38.3
Growth, %	11.5	0.8	25.5	28.8
Book NAV/ FD share (INR)	106.7	126.6	150.4	182.9
CEPS (INR)	27.5	28.7	35.4	44.4
CFPS (INR)	37.1	21.9	31.8	36.0
DPS (INR)	4.5	4.5	5.0	5.0
Return ratios				
Return on assets (%)	10.4	9.8	10.7	11.8
Return on equity (%)	24.2	20.3	21.5	23.0
Return on capital employed (%)	27.0	27.6	29.6	31.8
Turnover ratios				
Sales/Total assets (x)	3.6	3.8	3.8	3.9
Sales/Net FA (x)	9.1	10.9	11.6	13.0
Working capital/Sales (x)	0.2	0.2	0.2	0.2
Fixed capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	50.3	50.3	48.0	46.0
Inventory days	65.2	58.2	57.0	56.0
Loans, Adv (days)	9.0	11.2	9.7	8.1
Payable days	55.8	50.0	50.0	50.0
Working capital days	68.7	69.8	64.7	60.1
Liquidity ratios				
Current ratio (x)	2.0	2.1	2.2	2.2
Quick ratio (x)	1.0	1.1	1.2	1.2
Interest cover (x)	4.9	5.2	6.8	8.6
Dividend cover (x)	5.2	5.2	5.9	7.6
Total debt/Equity (%)	0.3	0.2	0.2	0.1
Net debt/Equity (%)	0.3	0.2	0.1	(0.0)
Valuation				
PER (x)	38.6	38.3	30.5	23.7
PEG (x) - y-o-y growth	3.4	45.7	1.2	0.8
Price/Book (x)	8.5	7.2	6.0	5.0
Yield (%)	0.5	0.5	0.6	0.6
EV/Net sales (x)	1.8	1.6	1.4	1.1
EV/EBITDA (x)	22.0	20.3	16.9	13.5
EV/EBIT (x)	24.3	22.8	18.9	14.9

Bajaj Electricals Ltd (BJE IN)

In a muddle

INDIA | MIDCAP-ELECTRICALS | Initiating Coverage

13 October 2015

BEL is one of the largest and the most renowned Indian players in the domestic lighting and consumer electricals space, with a vast portfolio across both segments. A combination of different brands has enabled the company to develop a large customer base across various price points. BEL also has a projects business, where it undertakes engineering projects on a turnkey basis in street lighting, illumination solutions for commercial facilities, and rural electrification.

Asset-light model in consumer appliances and lighting

BEL outsources more than 75% of its products in consumer appliances from small-scale units, as it concentrates on design, development, sales, and distribution. It has a similar model in its lighting business, where most of its lighting products are sourced from its associate/group companies. This 'asset-light' model helps curtail capex requirements, which is significant considering the short lifecycle of consumer electricals and appliances.

Margins in appliances and lighting seeing a gradual decline

Appliances and lighting businesses have accounted for more than two thirds of BEL's since FY07. While the company has seen its revenues and cash flows swell over the past few years, margins in these businesses have declined gradually. The contraction in profitability is most pronounced in lighting, where consumer preference for LED lighting solutions resulted in a fall in revenues and margins in FY15. This diminution in margins and resultant weakening of cash flows is a slight cause for concern since it reduces the quantum of cash flows available for deployment in the projects business.

Projects division recovering from a troubled past

BEL started its electrical projects business to leverage its expertise in lighting and luminaires, and to usefully deploy its cash flows from its consumer-facing businesses. With projects ranging from street lighting to solutions for sporting and industrial facilities, the company encountered success initially, but ran into trouble with more complex projects like transmission lines and rural electrification. It incurred cost overruns and consequently encountered cumulative EBIDTA losses of Rs 2.8bn from FY13-15. While all un-remunerative projects are now over, margins in this business are unlikely to be lucrative in the near term, given the limited improvement in the macro-economic scenario. Further, timely financial closure of some larger projects could see delays in execution, resulting in lower-than-expected profitability or possibly even losses in this segment.

Valuation

BEL's prospects hinge upon increasing traction in consumer businesses viz. appliances and lighting while simultaneously boosting the profitability of its projects vertical. The uncertainty surrounding the prospects of the latter coupled with its implications for the company's cash flows and balance sheet compel us to value it at a discount to its peers in the domestic electrical business. BEL currently trades at a P/E of 20x and EV/EBIDTA of 10x, discounting our FY17 earnings. We initiate coverage with a SELL recommendation and a price target of Rs 206 (based on our FY17 numbers), a 16% downside from its CMP.

SELL

CMP RS 246

TARGET RS 206 (-16%)

COMPANY DATA

O/S SHARES (MN) :	101
MARKET CAP (RSBN) :	25
MARKET CAP (USDBN) :	0.4
52 - WK HI/LO (RS) :	310 / 191
LIQUIDITY 3M (USDMN) :	1.2
PAR VALUE (RS) :	2

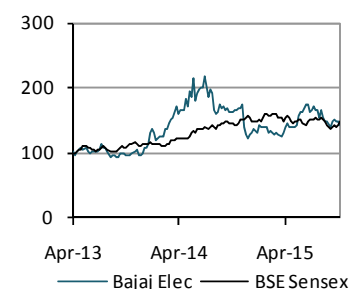
SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	63.0	63.1	65.6
FII / NRI :	19.5	18.2	14.9
FI / MF :	5.0	4.9	5.0
NON PRO :	7.3	6.3	2.7
PUBLIC & OTHERS :	10.6	12.2	12.8

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-0.5	-14.9	-11.3
REL TO BSE	-5.6	-12.1	-13.6

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	42,581	46,479	52,025
EBIDTA	890	2,579	3,159
Net Profit	-140	858	1,219
EPS, Rs	(1.4)	8.6	12.2
PER, x	(175.7)	28.6	20.1
EV/EBIDTA, x	28.9	11.8	9.6
P/BV, x	3.6	3.2	2.9
ROE, %	(2.0)	11.9	15.1
Debt/Equity (%)	1.2	1.1	0.9

Source: PhillipCapital India Research Est.

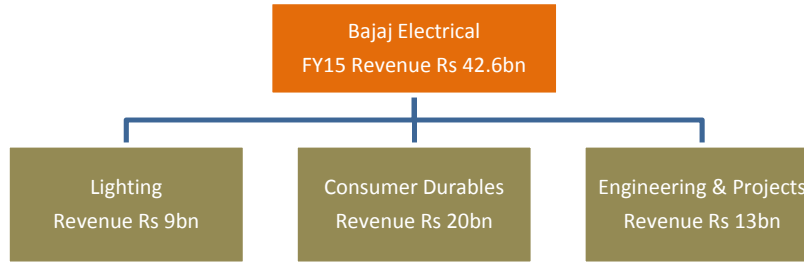
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Sizeable consumer-facing businesses

Over its seven decades of operations, BEL has continuously strived towards garnering a larger portion of consumer spends on electricals and appliances. Consequently, the company has opted to concentrate wholly on the design and development of products and monitoring of quality. Its outsourcing model has enabled it to routinely introduce new products in various verticals while cutting the lead-time to market. It has leveraged its brand and customer service initiatives over the years to emerge as one of the most trustworthy consumer brands in the country.

Bajaj Electricals – revenue break up



Source: Company, PhillipCapital India Research

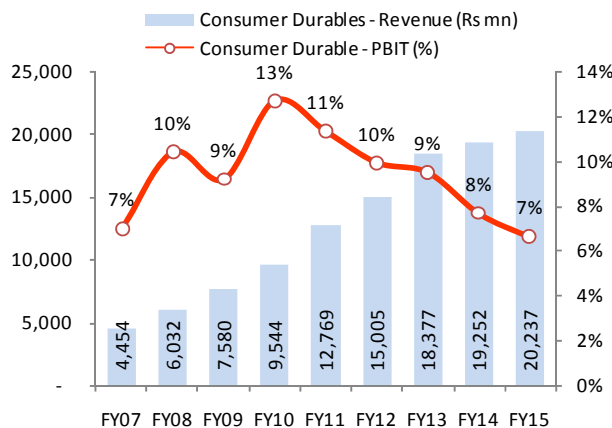
BEL’s consumer electricals businesses are:

Consumer appliances: In addition to selling products under its own brand, BEL has a technical collaboration and brand-licensing agreement with UK’s leading home appliances company, Morphy Richards, to sell its products in India. The company also has a tie up with Nardi, Italy, to sell gas-based cooking ranges/hobs.

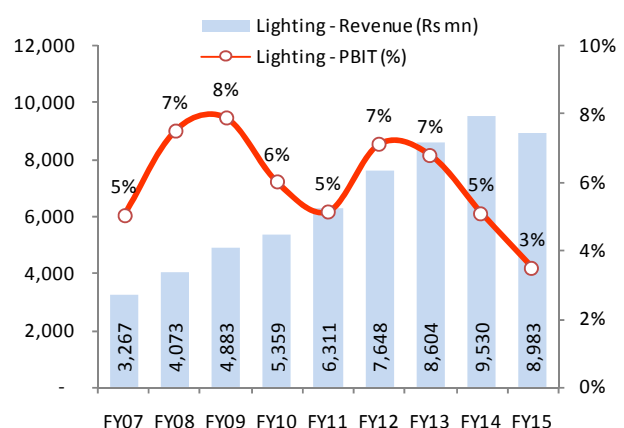
BEL also sells fans under this vertical and is one of the market leaders in this product category — 75% of fans sold by the company are manufactured in-house at its facility in Chakan, Maharashtra, while the remainder is procured from Midea, China, which is one of the world’s largest manufacturers of TPW (table, pedestal, wall-mounted) fans. BEL is now focussing its efforts on increasing its sales of industrial fans and other products in this vertical viz. designer and premium fans.

Consumer appliances are the largest revenue generator for BEL, with ~47% of income coming from this segment. Its market share ranges from 15-30% across products. It outsources manufacturing of all its products from dedicated vendors across the country, in addition to outsourcing from China.

BEL: Performance of the consumer durables business



BEL: Performance of the lighting business



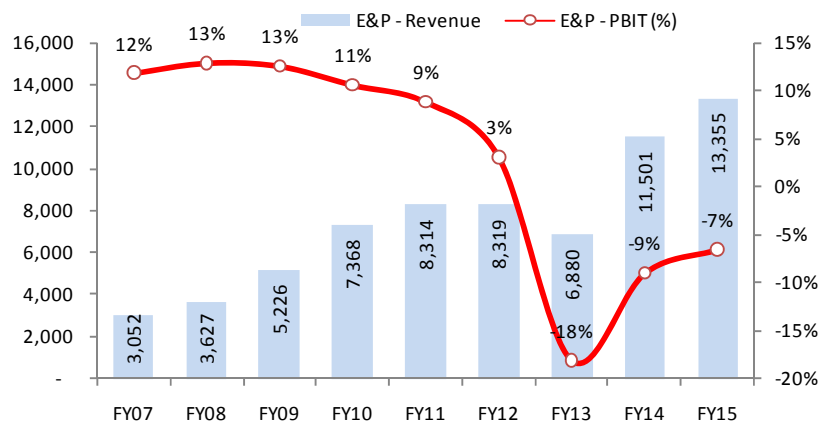
Source: Company, PhillipCapital India Research

Lighting: Until recently, BEL was a leading domestic player in lighting products, with a presence and top brand recall across all major product categories. It has a formidable range across GLS and FTL products, which it sources from its sister concern Hindustan Lamps Ltd., U.P., and its CFLs from another sister concern, Starlite Lighting Ltd, Nashik. However, the swift change in consumer preference for LEDs over traditional lighting media such as CFL and GLS has resulted in reducing revenue and profit traction for BEL in this vertical over the past three years. The company has now stepped up its sourcing of LEDs and had secured sizeable government order of ~Rs 450mn for the supply of LED bulbs.

Projects business emerging from a troubled past

BEL's project business falls into three buckets, viz. towers for power and telecom, special projects for facilities lighting, and high masts and poles. While the vertical started promisingly, with double-digit EBIT margins (FY07-10), problems in execution of certain large projects coupled with delays started taking a toll on margins and cash flows. Consequently, the company recorded three straight years of losses in this business (FY13-15), with cumulative EBIDTA losses of ~Rs 2.8bn. In addition to cash flows from its consumer businesses, the company had to resort to debt to complete orders on hand. Debt on the books ballooned to Rs 8.4bn in FY15 from Rs 3.5bn in FY12.

BEL: Performance of engineering and projects business



Source: Company, PhillipCapital India Research

With 11 consecutive quarters of EBIT losses, the company finally managed to turn profits in this vertical from 4QFY15. While this bodes well for the company's cash flows and will facilitate partial de-leveraging of BEL's balance sheet, we are not very confident of this business generating lucrative margins in the near term, given the sluggish economic scenario. Additionally, with a working capital churn of 0.5x and low returns on capital, we believe that any growth in this business will suck out valuable float from the consumer businesses, thereby suppressing return ratios at the enterprise level.

Dipping profitability in consumer businesses problematic

Over the past eight quarters, BEL has managed to maintain momentum in revenues of its appliances and lighting businesses. However, profitability in these segments has been ebbing. The drop is more pronounced in the lighting business, where the portfolio, consisting largely of conventional products like CFLs, FTLs, and GLS bulbs, is being less favoured compared to LED-based solutions. While BEL is stepping up its outsourcing and assembly of LED-based lighting products, sales in this vertical may take some time to normalize.

Simultaneously, the company is implementing a new distribution framework based on the 'Theory of Constraints'. It expects to reduce the working capital cycle in its consumer businesses by optimizing replenishment of stock, and in turn, hopes to improve margins by cutting down on incentives offered. However, we expect this transition to play out over a few quarters, and teething problems in this system could have an impact on sales and profitability in both consumer-facing businesses.

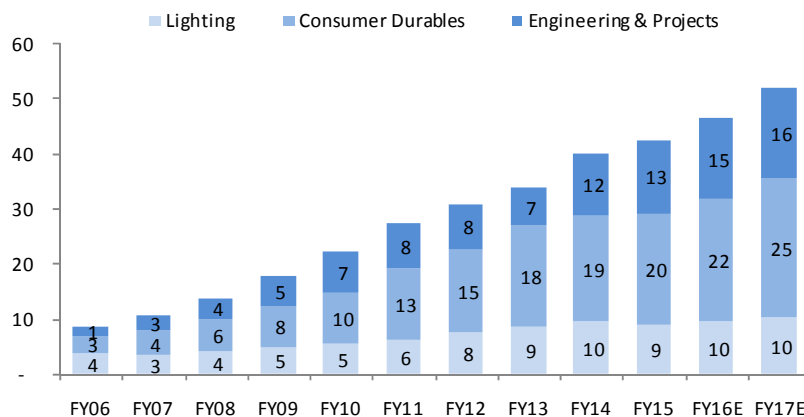
The broader issue at hand is the investment of profit generated from the consumer businesses into the capital-intensive projects business. With lesser surplus available, de-leveraging may be more difficult to accomplish. The deployment of surpluses into a lower-return-yielding project business could further impact enterprise-level return ratios.

Financials

As one of the oldest brands in the domestic appliances and lighting segments, BEL enjoys instant recall and tremendous brand equity. It has successfully ridden the wave of consumerism in the Indian economy, especially through its consumer appliances business, which has clocked a superlative CAGR of 22% over the past nine years. Its lighting business, which has delivered a more modest 10% CAGR in the same period, has also grown thanks to its vast distribution and legacy of a trusted brand.

However, a cause of concern is that while profits in these segments have grown, profitability has been slipping from historical highs. While some of this could be due to the tough economic environment, increasing competition and product lifecycle management are also credible reasons.

BEL: Segmental revenues

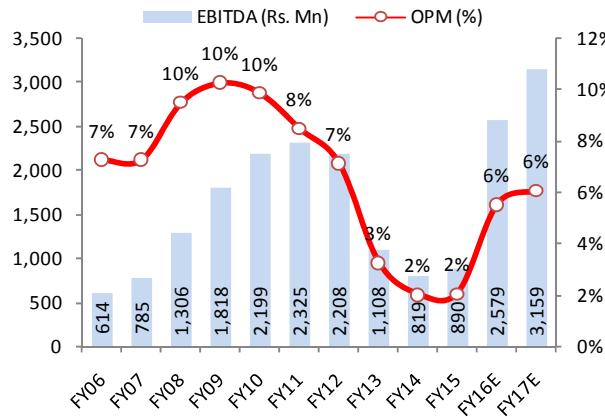
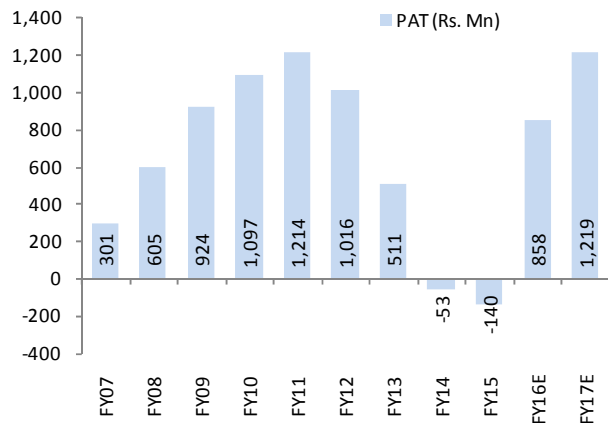


Source: Company, PhillipCapital India Research

The projects business, which started off well initially, has over the past few years weakened the company's balance sheet and guzzled most of the cash generated by BEL's asset-light consumer businesses. Eleven consecutive quarters of losses (FY13-15) due to delays in project execution and other complications resulted in write-offs / provisions that drove the company into operational losses. A more serious fallout of this was the inordinate expansion of the working capital cycle, which in turn was funded by debt.

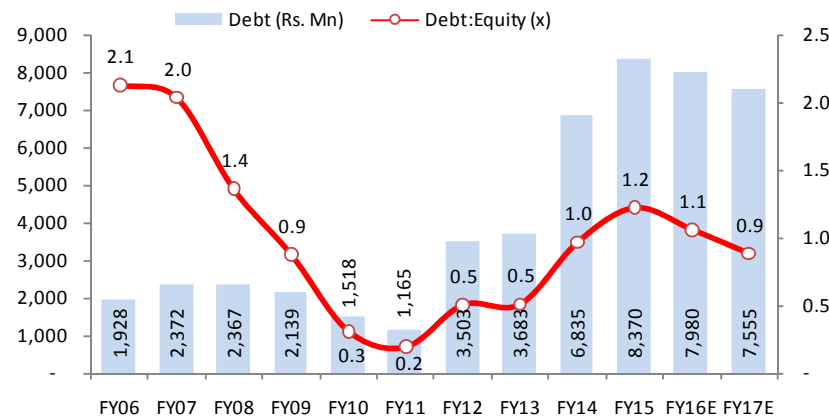
Going ahead, we expect BEL to clock sales of Rs 46bn in FY16, up 9% yoy. This would be because of higher sales across all its business segments. With no losses expected in the projects division, we expect OPM at 5.5% as EBIDTA and profits settle at Rs

2.6bn and Rs 1.3bn respectively. In FY17, we expect revenues of Rs 52bn and a growth of 12% yoy. We estimate OPM at 6% with EBIDTA and net profits at Rs 2.9bn and Rs 1.2bn respectively. We have listed our assumptions for revenues in various verticals in the table below.

BEL: Operational profitability

BEL: PAT profile


Source: Company, PhillipCapital India Research

Our primary concern remains the operational profitability of the engineering projects business, which has an order book of Rs 34bn. Any inordinate delays in execution could see repeat of losses in this business, thereby impacting our cash-flow estimates and calculations for returns on capital employed and equity.

BEL: Debt and gearing


Source: Company, PhillipCapital India Research

Outlook and valuation

Intensifying competition in the consumer appliances segment coupled with lacklustre profitability, inappropriate product mix in its lighting business, and uncertainty in execution timelines of new projects are potent spoilers for BEL's valuations. At present, our estimates for BEL's profits and cash flows have more downside risks than positive surprises. Hence, we initiate coverage on the company with a SELL rating and a price objective of Rs 206 (17x our FY17 earnings).

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	40,298	42,581	46,479	52,025
Growth, %	19.0%	5.7%	9.2%	11.9%
Raw Material expenses	28,856	30,143	32,768	36,522
Operating expenses	8,798	9,312	8,785	9,833
Employee expenses	1,825	2,236	2,348	2,512
EBITDA (Core)	819	890	2,579	3,159
Growth, %	-26.0%	8.6%	189.8%	22.5%
Margin, %	2.0%	2.1%	5.5%	6.1%
Depreciation	247	290	323	387
EBIT	572	600	2,256	2,771
Growth, %	-40.6%	4.9%	276.2%	22.8%
Margin, %	1.4%	1.4%	4.9%	5.3%
Interest paid	783	1,051	1,104	1,049
Other Non-Operating Income	151	243	200	200
Pre-tax profit	(60)	(208)	1,353	1,923
Tax provided	(7)	(69)	495	704
Profit after tax	(53)	(140)	858	1,219
(-) Exceptional Expenses	0	0	0	0
Net Profit	(53)	(140)	858	1,219
Growth, %	-110.4%	162.7%	-714.5%	42.1%
Margin, %	-0.1%	-0.3%	1.8%	2.3%
Net Profit (adjusted)	(53)	(140)	858	1,219
No. of Eq. Sh O/S (m nos)	100	101	101	101

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	543	377	63	154
Debtors	16,180	16,757	18,075	20,087
Inventory	4,467	4,746	4,634	4,751
Loans & advances	2,216	2,526	2,526	2,526
Other current assets	0	0	0	0
Total current assets	23,406	24,406	25,298	27,518
Investments	673	594	594	594
Gross fixed assets	3,723	4,319	4,719	4,919
Less: Depreciation	1,231	1,543	1,866	2,253
Add: Capital WIP	26	32	50	50
Net fixed assets	2,518	2,808	2,904	2,716
Total assets	26,597	27,808	28,796	30,829
Current liabilities	12,000	11,859	12,560	13,981
Provisions	925	1,194	1,194	1,194
Total current liabilities	12,925	13,052	13,754	15,175
Debt	6,835	8,370	7,980	7,555
Deferred Tax Liability	-253	-489	-489	-489
Total liabilities	19,506	20,933	21,245	22,241
Paid-up capital	199	202	202	202
Reserves & surplus	6,891	6,673	7,349	8,386
Shareholders' equity	7,090	6,875	7,551	8,588
Total equity & liabilities	26,597	27,808	28,796	30,829

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Pre-tax profit	(60)	(208)	1,353	1,923
Depreciation	247	290	323	387
Chg in working capital	(1,296)	(420)	(504)	(708)
Total tax paid	(302)	(308)	(495)	(704)
Other operating activities	1,348	1,533	904	849
Cash flow from operating activities	(63)	887	1,580	1,747
Capital expenditure	(472)	(624)	(418)	(200)
Chg in investments	(291)	133	0	0
Other investing activities	0	0	200	200
Cash flow from investing activities	(764)	(491)	(218)	0
Free cash flow	(826)	396	1,362	1,747
Equity raised/(repaid)	41	127	0	0
Debt raised/(repaid)	1,844	425	(390)	(425)
Dividend (incl. tax)	(288)	(227)	(182)	(182)
Other financing activities	(727)	(888)	(1,104)	(1,049)
Cash flow from financing activities	869	(562)	(1,676)	(1,655)
Net chg in cash	43	(166)	(314)	91

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
Dil. EPS (INR)	(0.5)	(1.4)	8.6	12.2
Growth, %	-110%	163%	-715%	42%
Book NAV/ FD share (INR)	71.2	69.0	75.8	86.2
CEPS (INR)	2.0	1.5	11.7	15.9
CFPS (INR)	(0.6)	8.9	15.9	17.5
DPS (INR)	1.5	1.5	1.5	1.5
Return ratios				
Return on assets (%)	(0.2)	(0.5)	3.0	4.0
Return on equity (%)	(0.7)	(2.0)	11.9	15.1
Return on capital employed (%)	5.9	5.9	16.5	19.4
Turnover ratios				
Sales/Total assets (x)	2.9	2.9	3.1	3.3
Sales/Net FA (x)	16.2	15.3	16.3	19.5
Working capital/Sales (x)	0.3	0.3	0.2	0.2
Fixed capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	144.5	141.7	140.0	139.0
Inventory days	40.7	41.0	38.0	35.0
Loans, Adv (days)	19.8	21.4	19.6	17.5
Payable days	109.4	102.4	103.0	103.0
Working capital days	95.6	101.6	94.6	88.5
Liquidity ratios				
Current ratio (x)	1.8	1.9	1.8	1.8
Quick ratio (x)	1.5	1.5	1.5	1.5
Interest cover (x)	1.2	1.1	2.1	2.5
Dividend cover (x)	(0.4)	(0.9)	5.7	8.1
Total debt/Equity (%)	1.0	1.2	1.1	0.9
Net debt/Equity (%)	0.9	1.2	1.0	0.9
Valuation				
PER (x)	(461.6)	(175.7)	28.6	20.1
PEG (x) - y-o-y growth	4.2	(1.1)	(0.0)	0.5
Price/Book (x)	3.5	3.6	3.2	2.9
Yield (%)	0.6	0.6	0.6	0.6
EV/Net sales (x)	0.8	0.8	0.7	0.6
EV/EBITDA (x)	31.7	28.9	11.8	9.6
EV/EBIT (x)	42.6	38.9	13.3	10.8

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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