March 30, 2020

Assessing impact of Covid-19…

The consumer discretionary sector will be negatively impacted by the outbreak of Covid-19 across the globe. The lockdown situation will not only hurt the entire supply chain (from sourcing of raw material/finished goods to delivery at dealer levels) of the sector, we believe a demand recovery will be late in discretionary products. On the positive side, lower crude prices coupled with RBI's 90 days moratorium on various loans are likely to provide huge relief to companies and dealers, which would have otherwise been stuck with working capital loans. We cut our revenue and earnings estimate of consumer discretionary universe by ~10% and 12%, respectively, for FY21E. However, a sound balance sheet position and strong pan-India distribution of companies under our coverage will help them recoup their lost sales as and when the economy reverts to normal.

Lockdown to impair quarterly performance

Our interaction with managements and dealers indicates significant pre-buying activity of consumer goods during January-February 2020 on fears of supply related issues from China. While companies have secured supplies to avoid any disturbance in sales in Q4FY20, demand was negatively impacted in March 2020 owing to holiday and post that lockdown across countries. We also believe a late recovery in demand for consumer goods will also impact Q1FY21 performance due to 1) shortage of workers (due to heavy migration), 2) shift in focus on essential goods compared to discretionary products and 3) streamlining of supply chain.

Benign raw material prices to cushion EBITDA margin

The sharp decline in crude prices (50% correction from its recent peak) is likely to provide strong relief to paint and adhesive companies as the recovery in their sales would be much delayed due to labour shortage. However, the higher fixed cost would be partly offset by saving in raw material cost. Hence, EBITDA margin is likely to remain at elevated levels.

Valuation & Outlook

While it is difficult to gauge the exact impact of the lockdown, we believe companies with strong balance sheet (cash rich), market leaders in their respective categories and experience managements will recover faster from challenging conditions. Hence, while we cut our revenue and earnings estimates for FY21E and FY22E, we believe a sharp fall in stock prices (~35% from recent peak) makes a good entry point for long term investors considering their strong fundamentals.

Key Highlights

- We believe a late recovery in the demand for consumer discretionary products owing to shortage of workers and shift in focus towards essential goods
- We believe while a price hike will be difficult in this period, lower crude prices are likely to benefit paints and adhesive companies. Hence, their margin is likely to remain at elevated level
- We upgrade rating considering their market leadership position and strong balance sheet condition, which would help them to recover fast as and when economic activity returns to normal

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Revised targets: Consumer Discretionary

	Previous		Now		
Company	Target Price	Rating	CMP	Target Price	Rating
Asian paint	2050	Buy	1597	1900	Buy
Pidilite Industries	1620	Hold	1280	1485	Buy
Kansai Nerolac	545	Hold	362	425	Buy
Supreme Industries	1420	Hold	876	1040	Buy
Astral Polytechnik	1275	Hold	883	1075	Buy
Havells India	640	Hold	492	575	Buy
Voltas	765	Hold	476	535	Hold
Bajaj Electricals	500	Buy	280	340	Buy
V-guard	255	Buy	153	190	Buy

Source: Company, ICICI Direct Research

Asian Paints (ASIPAI)

Asian Paints is likely to witness short-term pressure in demand amid lockdown and disruption in supply chain in March-April 2020. The company has shut down most of its plants in India (contributes ~88% of net revenue) due to outbreak of Covid-19. We believe the shutdown will impact its Q4FY20 sales and thus FY20 sales (cut revenue, earning estimate by ~2% each). We also believe paint being highly discretionary in nature would see a slow recovery in demand while an actual pick-up in demand should be seen from Q2FY21 onwards supported by festive season. Asian Paints, with its robust dealer network (~60,000 +) and strong supply chain is well placed among competitors to recover lost sales in coming future. The consistent growth in the decorative segment would be supported by 1) strong demand from tier II, tier III cities and rural India, 2) market share gain in bottom of the pyramid products and 3) launch of new products in the economy range.

Historically, Asian Paints has recorded strong gains in gross margin by 500 bps due to a sharp drop in raw material prices. However, we believe the company would partially pass on the benefit of the recent fall in raw material prices (crude declined ~50% from its peak) and register marginal expansion in gross margin (by 70 bps and 110 bps in FY21E and FY22E, respectively). We cut our revenue and earnings estimate by 8% & 12% and ~6% & 7% for FY21E and FY22E, respectively. We model revenue, earning CAGR of 12% and 14%, respectively, for FY20-22E. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 1900/share.

Exhibit 1: Change in estimates

(₹ crore)	FY20E			FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	20942.7	20622.6	-1.5	24521.0	22530.9	-8.1	27479.7	25949.6	-5.6
EBITDA	4300.4	4223.8	-1.8	5259.1	4648.8	-11.6	5925.6	5516.3	-6.9
EBITDA Margin (%)	20.5	20.5	-2bps	21.4	20.6	-77bps	21.6	21.3	-34bps
PAT	2918.5	2866.7	-1.8	3556.8	3114.2	-12.4	3987.7	3700.9	-7.2
EPS (₹)	30.4	29.9	-1.8	37.1	32.5	-12.4	41.6	38.6	-7.2

Source: Company, ICICI Direct Research

Exhibit 2: Key Financial Summary

(₹ Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (20-22E)
Net Sales	16824.6	19341.5	20622.6	22530.9	25949.6	12.2
EBITDA	3197.6	3762.1	4223.8	4648.8	5516.3	14.3
EBITDA Margin (%)	19.0	19.5	20.5	20.6	21.3	
Net Profit	2097.5	2208.0	2866.7	3114.2	3700.9	13.6
EPS (₹)	21.9	23.0	29.9	32.5	38.6	
P/E (x)	73.0	69.4	53.4	49.2	41.4	
Price/Book (x)	18.2	16.1	14.2	12.9	11.5	
Mcap/Sales (x)	9.1	7.9	7.4	6.8	5.9	
RoE (%)	24.4	23.2	26.6	26.3	27.8	
RoCE (%)	31.6	30.4	30.7	31.5	33.5	

Source: Company, ICICI Direct Research,

Pidilite Industries (PIDIND)

Pidilite's consumer and bazaar segment (~84% of revenue) and industrial products (~16% of revenue) are likely to be hit by the shutdown of plants and slowdown in construction activities. Our channel check suggests while the company witnessed a slight recovery in volume growth during (January-February 2020) after a lull in Q3FY20, challenges of volume offtake started from mid-March 2020. Lower construction activities owing to Holi and lockdown across the country are likely to hit volume offtake of the company in Q4FY20 and Q1FY21 (contributes ~26% and 25% of annual revenue, respectively). We believe we will see a partial recovery in demand from Q2FY21 as normalcy returns as dealers start building inventories for the rainy season. Further, despite a lower operating leverage (due to lower plant utilisation) we believe margins would remain elevated owing to a sharp decline in raw material prices (VAM prices declined 18% YoY). We cut our revenue and earnings estimate by ~10% each for FY21E, FY22E. We change our stance on the company from HOLD to **BUY** and revised target price of ₹ 1485. We believe Pidilite, being a strong brand in the adhesive segment, is well positioned to capitalise on growth momentum with a revival in the economy. We also believe crude oil prices will remain at lower levels in the medium term, which will benefit the market leader as it is least likely to pass on the entire benefit of lower raw material prices. In addition to this, strong balance (zero debt, RoCE and RoE of 30% and 23%, respectively), average dividend payout of 43% and an efficient deployment of cash for inorganic growth would be an added advantage for Pidilite Industries

Exhibit 3: Change in estimates

(₹ crore)	FY20E			FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	7,690.2	7,597.0	(1.2)	8,777.5	7,908.4	(9.9)	10,026.7	9,022.3	(10.0)
EBITDA	1,770.1	1755.4	(0.8)	2,031.3	1834.9	(9.7)	2,377.0	2,145.0	(9.8)
EBITDA Margin (%)	23.0	23.1	9bps	23.1	23.2	6bps	23.7	23.8	7bps
PAT	1290.5	1279.4	(0.9)	1518.4	1369.5	(9.8)	1,781.8	1,605.9	(9.9)
EPS (₹)	25.2	25.0	(0.9)	29.6	26.7	(9.8)	34.8	31.3	(9.9)

Source: Company, ICICI Direct Research

Exhibit 4: Key financial summary

₹ Crore	FY18	FY19	FY20E	FY21E	FY22E	(CAGR 20E-22E)
Net sales	6078.4	7078.7	7597.0	7908.4	9022.3	9.0
EBITDA	1341.2	1368.3	1755.4	1834.9	2145.0	10.5
EBITDA Margin(%)	22.1	19.3	23.1	23.2	23.8	
Net Profit	966.1	928.4	1279.4	1369.5	1605.9	12.0
EPS (₹)	18.8	18.1	25.0	26.7	31.3	
P/E(x)	68.1	70.8	51.4	48.0	41.0	
Price /book (x)	18.4	15.9	13.5	11.8	10.1	
Mcap /sales (x)	10.8	9.3	8.7	8.3	7.3	
RoE (%)	27.0	22.7	26.6	24.5	24.6	
RoCE (%)	33.6	29.6	32.7	30.6	30.9	

Source: Company, ICICI Direct Research

Kansai Nerolac Paints (KANNER)

Among major paints players, KNPL's performance remained muted owing to its industrial product portfolio (~45% of revenue). While KNPL's decorative portfolio is likely to face challenges in the near term due to the ongoing lockdown across the country, we believe demand from the automotive industry is likely to remain sluggish in the near to medium term due to shutdown of automotive plants. However, we believe the company would recover its sales loss in the decorative segment as and when normalcy returns while the industrial paint category would largely be driven by coil coating and functional powder coatings. On the margin front, we believe the company would benefit from lower raw material prices owing to a sharp reduction in raw material prices (~50% reduction in crude prices from its recent peak) but lower operating leverage would further restrict any sharp increase in EBITDA margin. Hence we cut our revenue, earning estimates ~12.5% & ~13% for FY21E, and 5% and 10% for FY22E respectively. However, we change our rating from HOLD to **BUY** and revise our target price to ₹ 425/share considering its strong promoter pedigree, lean balance sheet and continuous focus on enhancing dealer reach.

Exhibit 5: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	5,143.5	5025.1	(2.3)	5,829.8	5102.6	(12.5)	6556.2	6225.6	(5.0)
EBITDA	850.0	820.3	(3.5)	1,013.9	879.1	(13.3)	1163.5	1055.6	(9.3)
EBITDA Margin %	16.5	16.3	-20bps	17.4	17.2	-16bps	17.7	17.0	-79bps
PAT	595.5	577.9	(3.0)	683.0	595.2	(12.9)	785.6	710.7	(9.5)
EPS (₹)	11.1	10.7	(3.0)	12.7	11.0	(12.9)	14.6	13.2	(9.5)

Source: Company, ICICI Direct Research

Exhibit 6: Key financial summary

(₹ Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR(FY20E-22E)
Net Sales	4569.6	5138.9	4998.0	5072.3	6191.6	11.3
EBITDA	789.8	742.0	820.3	879.1	1055.6	13.4
EBITDA Margin (%)	17.2	14.3	16.3	17.2	17.0	
Net Profit	516.4	467.3	577.9	595.2	710.7	10.9
EPS (₹)	9.6	8.7	10.7	11.0	13.2	
P/E (x)	37.6	41.5	33.6	32.6	27.3	
Price/Book (x)	8.6	7.8	7.4	6.7	6.0	
Mcap/Sales (x)	4.2	3.8	3.9	3.8	3.1	
RoE (%)	16.5	13.6	16.0	14.9	16.0	
RoCE (%)	24.5	20.2	19.8	19.3	20.7	

Source: Company, ICICI Direct Research

Supreme Industries (SUPIND)

The company's core business (i.e. piping) contributes ~60% to the topline while the non-core business (packaging/industrial/consumer) business contributes rest 40%. For 9MFY20, the core business (grew 13% YoY) helped drive the performance while its non-core business (declined 12% YoY) restricted overall revenue growth at 2%YoY. We believe the current lockdown situation is a challenging period for piping majors wherein shutdown of the plants would derail the performance of the core business. We also believe there would be a late recovery in the industry owing to labour related shortage and volatility in raw material prices (delay in prices hikes). On the positive side, Supreme as a market leader in the segment with strong supply chain in place, is likely to benefit most as and when normalcy returns. Also, the industry may witness consolidation in the wake of capital crunch due to lockdown, which would further aid-in market share gain for organised players. We cut our revenue and earnings estimates by ~9% and ~12% for FY21E and ~3% and 9% for FY22E, respectively. The recent stock price correction by ~37% gives a good entry point to long term investors. We upgrade our rating on the stock from HOLD to **BUY** with a revised target price of ₹ 1040/share considering Supreme's leadership position in the piping industry along with its strong balance sheet condition, which cushions the company from any near term crisis.

Exhibit 7: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	5,765.9	5649.0	(2.0)	6,560.8	5951.7	(9.3)	7521.7	7333.1	-2.5
EBITDA	822.5	785.1	(4.5)	958.9	844.9	(11.9)	1111.9	1032.4	-7.1
EBITDA Margin %	14.3	13.9	-37bps	14.6	14.2	-42bps	14.8	14.1	-70bps
PAT	516.1	489.5	(5.2)	562.1	492.3	(12.4)	659.1	601.3	-8.8
EPS (₹)	40.6	38.5	(5.2)	44.3	38.8	(12.4)	51.9	47.3	-8.8

Source: Company, ICICI Direct Research

Exhibit 8: Key financial summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4966.3	5612.0	5649.0	5951.7	7333.1	13.9
EBITDA	787.1	784.6	785.1	844.9	1032.4	14.7
EBITDA Margin (%)	15.8	14.0	13.9	14.2	14.1	
Net Profit	431.0	448.6	489.5	492.3	601.3	10.8
EPS (₹)	33.9	35.3	38.5	38.8	47.3	
P/E (x)	25.8	24.8	22.7	22.6	18.5	
Price/Book (x)	5.9	5.2	4.8	4.4	3.9	
Mcap/Sales (x)	2.2	2.0	2.0	1.9	1.5	
RoE (%)	22.7	18.7	21.2	19.5	21.0	
RoCE (%)	27.9	25.0	22.9	23.1	25.0	

Source: Company, ICICI Direct Research

Astral Poly Technik (ASTPOL)

Astral Poly derives ~75% of its revenue from the piping segment while the rest comes from the adhesive segments. We believe a lockdown would result in closure of its plants across geographies, which would derail its revenue growth for Q4FY20 and Q1FY21. We revise our piping segment volume growth guidance down from 15% to 11% for FY21E due to supply chain shutdown of the company till mid-April 2020. As the product line of the company is heavily dependent on construction related activities, a delay in return of labourers would lead to a late recovery in the piping and adhesive business. However, we believe Astral is better placed among competitors to recoup lost sales due to its strong fundamentals and financial conditions. We cut our revenue, earning estimate 8% and 12% for FY21E and 4% and 8% for FY22E, respectively. We upgrade our rating from HOLD to **BUY** and revise our target price to ₹ 1075/share.

Exhibit 9: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	2,845.6	2763.3	(2.9)	3,418.2	3144.3	(8.0)	4,004.5	3830.0	-4.4
EBITDA	486.2	470.5	(3.2)	590.5	526.9	(10.8)	680.3	628.8	-7.6
EBITDA Margin %	17.1	17.0	-6bps	17.3	16.8	-52bps	17.0	16.4	-57bps
PAT	281.2	273.9	(2.6)	338.7	298.6	(11.8)	411.0	376.6	-8.4
EPS (₹)	18.7	18.2	(2.6)	22.5	19.8	(11.8)	27.3	25.0	-8.4

Source: Company, ICICI Direct Research

Exhibit 10: Key financial summary

₹ crore	FY18	FY19	FY20E	FY21E	FY22E	(CAGR FY20E-22E)
Net Sales	2106.0	2507.3	2763.3	3144.3	3830.0	17.7
EBITDA	316.8	384.9	470.5	526.9	628.8	15.6
EBITDA Margin (%)	15.0	15.4	17.0	16.8	16.4	
Net Profit	175.7	197.3	273.9	298.6	376.6	17.3
EPS (₹)	11.7	13.1	18.2	19.8	25.0	
P/E(x)	79.3	70.5	50.8	46.6	37.0	
Price/book value (x)	13.7	10.9	9.1	7.7	6.6	
Mcap/sales (x)	6.6	5.6	5.0	4.4	3.6	
RoE (%)	17.3	15.5	17.9	16.6	17.8	
RoCE (%)	23.0	20.8	21.5	22.3	23.6	

Source: Company, ICICI Direct Research

Havells India (HAVIND)

Havells' product portfolios includes industrial (wire & cable and switchgears) and consumer segments (home appliances). While the consumer facing business reported good growth in January-February 2020, the industrial category products continued to face challenges due to sluggishness in construction activity.

We believe pre-buying activity of consumer goods at the dealer's level in anticipation of a supply crunch (due to lockdown of China) is likely to drive sales of electrical consumer durable (ECD) for Havells India. However, revenue growth for Q1FY21 is likely to get derailed in the wake of the shutdown and slow pick-up in business activities, which may hamper the sales of cooling products. The lower operating leverage and absence of prices hikes would also weigh on profitability of the business. Hence, we cut our revenue, earning guidance by 7% and 12% for FY21E and 6% & 10% for FY22E, respectively. We believe Havells, being a strong brand in the FMEG category, is likely to benefit from its backward integration (strong supply chain) and strong balance sheet position as and when business returns normalcy. We upgrade our rating from HOLD to **BUY** with a revised target price of ₹ 575/share.

Exhibit 11: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	10199.6	9921.3	(2.7)	11704.3	10856.8	(7.2)	13130.4	12294.3	(6.4)
EBITDA	1136.8	1107.5	(2.6)	1449.5	1257.3	(13.3)	1649.6	1556.2	(5.7)
EBITDA Margin %	11.1	11.2	6bps	12.4	11.6	-82bps	12.6	12.7	6bps
PAT	800.3	783.9	(2.0)	970.2	853.3	(12.1)	1127.6	1070.0	(5.1)
EPS (₹)	12.8	12.6	(2.0)	15.6	13.7	(12.1)	18.1	17.1	(5.1)

Source: Company, ICICI Direct Research

Exhibit 12: Key financial summary

₹ Crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR FY20E-22E
Net Sales	8138.5	10057.6	9921.3	10856.8	12294.3	11.3
EBITDA	1049.2	1192.2	1107.5	1257.3	1556.2	18.5
EBITDA Margin (%)	12.9	11.9	11.2	11.6	12.7	
PAT	712.5	791.5	783.9	853.3	1070.0	16.8
EPS (₹)	11.4	12.7	12.6	13.7	17.1	
P/E (x)	43.1	38.8	39.2	36.0	28.7	
Price/Book Value (x)	8.2	7.2	7.1	6.4	5.6	
Mcap/Sales	3.8	3.1	3.1	2.8	2.5	
RoE (%)	18.8	18.7	18.2	17.8	19.5	
RoCE (%)	25.2	25.3	21.9	22.4	24.7	

Source: Company, ICICI Direct Research

Bajaj Electricals (BAJELE)

Bajaj Electricals (BEL) has shut down its manufacturing/assembling units as a safety measure in the wake of Covid-19 outbreak. The lockdown situation is likely to hit the company in its two major business segments i.e. engineering & project (E&P) and consumer durable (CD) businesses. The company has indicated in the conference call that business performance during January-February 2020 remained satisfactory but holiday due to Holi and post that lockdown likely to hit BEL's Q4FY20 and Q1FY21 performance. We believe improved balance sheet condition (post completion of rights issue of ~₹ 350 crore the debt/equity at <1) and relief by central bank on moratorium of working capital loan for 90 days is likely to benefit the company in such challenging conditions. On the business front, the management took a swift decision to move maximum inventory at regional depots so that supply of finished goods reaches dealers in minimum possible time. This would aid the company to cater to a sudden spike in demand once the situation normalises in the coming future. We cut our revenue, earning estimate by 5% and 21% for FY20E and 10% and 18% for FY21E, respectively. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 340/share.

Exhibit 13: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	5157.0	4886.0	(5.3)	5460.6	4897.7	(10.3)	5904.4	5387.8	(8.7)
EBITDA	228.0	211.2	(7.4)	263.2	227.4	(13.6)	354.7	324.3	(8.6)
EBITDA Margin %	4.4	4.3	-8bps	4.8	4.6	-16bps	6.0	6.0	2bps
PAT	14.4	11.4	(21.0)	78.1	64.2	(17.7)	150.5	143.6	(4.6)
EPS (₹)	1.3	1.0	(21.0)	6.9	5.7	(17.7)	13.2	12.6	(4.6)

Source: Company, ICICI Direct Research

Exhibit 14: Key financial summary

(₹ Crore)	FY18	FY19	FY20E	FY21E	FY22E	(CAGR 20-21E)
Net Sales	4707.5	6673.1	4886.0	4897.7	5387.8	5.0
EBITDA	293.4	349.0	211.2	227.4	324.3	23.9
EBITDA Margin (%)	6.2	5.2	4.3	4.6	6.02	
PAT	83.6	167.1	11.4	64.2	143.6	NM*
EPS (₹)	8.2	16.3	1.0	5.7	12.6	
P/E(x)	34.3	17.2	279.7	49.6	22.2	
Price/Book value (x)	3.0	2.7	2.4	2.4	2.2	
Mcap/sales (x)	0.6	0.4	0.6	0.6	0.5	
RoE (%)	13.7	15.5	0.9	4.8	10.0	
RoCE (%)	18.1	13.8	7.4	8.2	11.9	

Source: Company, ICICI Direct Research

Voltas Ltd (VOLTAS)

The company is likely to witness healthy volume led growth in Q4FY20 owing to pre-buying activities by dealers in anticipation of supply related issues due to lockdown in China. Further, the industry took a price hike to the extent of 5% in the last week of February to offset higher custom duty on compressor and logistics cost. Generally, Q1 happens to be a strong period for cooling product companies, which contributes ~33% of annual sales. We believe the complete lockdown would hit the entire supply chain of the UCP segment (contributes ~45% of sales) and derail Q1FY20 segment revenue. On the other hand, the EMPS business is also likely to be hit by a delay in project execution in the Middle East and India due to lockdown situation across operating geographies. However, we believe Voltas being a market leader in the cooling product segment would recoup sales as an when economic activity normalises in the coming future. We like Voltas for its strong brand recall and healthy balance sheet, which would cushion the company from any adverse situations. We cut our revenue, earning estimates by ~9% & ~12% for FY21E and ~8% for FY22E, respectively. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 535/share ascribing PE multiple 8x, 8x and 27x to EMPS, EPS and UCP segment, respectively.

Exhibit 15: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	7,785.1	7,764.0	(0.3)	8,782.2	7,964.3	(9.3)	10,063.9	9,256.3	(8.0)
EBITDA	734.6	710.6	(3.3)	815.5	708.1	(13.2)	963.1	874.9	(9.2)
EBITDA Mar(%)	9.4	9.2	-25bps	9.3	8.9	-41bps	9.6	9.5	-15bps
PAT	565.2	547.5	(3.1)	658.7	583.2	(11.5)	768.6	707.3	(8.0)
EPS (₹)	17.1	16.6	(3.1)	19.9	17.6	(11.5)	23.2	21.4	(8.0)

Source: Company, ICICI Direct Research

Exhibit 16: Key financial summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (20E-22E)
Net Sales	6404.4	7124.1	7764.0	7964.3	9256.3	9.2
EBITDA	662.6	611.7	710.6	708.1	874.9	11.0
EBITDA Margin (%)	10.3	8.6	9.2	8.9	9.5	
Net Profit	577.9	513.9	547.5	583.2	707.3	13.7
EPS (₹)	17.5	15.5	16.6	17.6	21.4	
P/E(x)	27.2	30.6	28.8	27.0	22.3	
Price/Book (x)	4.0	3.8	4.0	3.8	3.5	
Mcap/Sales (x)	2.5	2.2	2.0	2.0	1.7	
RoE (%)	14.8	12.7	14.8	14.1	15.9	
RoCE(%)	19.8	17.3	21.1	19.6	21.7	

Source: Company, ICICI Direct Research

V-Guard Industries (VGUARD)

V-Guard is likely to face challenges amid Covid-19 outbreak and plant shutdown across India. While the company witnessed a strong recovery in sales during the first two months of the current quarter the lockdown situation from the last week of March 2020 is likely to impact revenue for whole Q4. We believe Q1, which largely contributes 25% to annual sales, would also get impacted due to shutdown and slow recovery in business activities. We also believe EBITDA margins would be impacted by lower operating leverage. Hence, we cut our revenues and earnings estimates by 9%, 16% for FY21E and 9% and 12% for FY22E, respectively. Here are key takeaways of the conference call:

- As per directives of government, the company has taken a hefty measures and shut down its plant at various locations
- The lockdown is going to impact revenue of Q1FY20 and Q1FY21 for the company. The management believes they are best placed to face tough time as it is a cash surplus company (with cash of ₹ 250 crore by December 2019)
- Demand during January-February 2020 remain strong due to pre-buying activities as most of the channel partners build-up inventory in the fear of supply related concern going forward
- On the geography front, Kerala market growth in the FMEG segment has remained tepid (growing at ~2-3%). Over the years, the company has reduced its exposure in the Kerala market due to rising competition
- The EBITDA margin difference between Kerala and other states is nearly 500-600 bps. Hence, the company is focused on reducing the dependency on Kerala as revenue and operating profit contribution from the region has declined from 60% and 75% in 2008 to 22% and 18%, respectively
- Of the total revenue ~7% is dependent on import. The major items which company outsource are kitchen appliances, switches, air cooler and inverter battery. Further, the company is likely to increase its in-house manufacturing from current 55% to 60% in the next five years
- Only 30% of total outstanding is financed through channel financing hence there would not have much impact on its dealers in case of any liquidity related issues
- Total 95% of the company's product purchased through cash/credit cards at store while 5% is though NBFC finance
- According to the management, the industry may witness consolidation in the industry as and when normalcy prevail in the domestic market largely on account of liquidity issue
- The company is strengthening its presence in the eastern markets as it is less penetrated and has a huge potential of future growth

We believe the company is a strong business franchise that has bounced back strongly post adverse conditions such as (demonetisation, floods, etc). We also believe that V-Guard is better placed among competitors (in term of strong supply chain and prudent working capital management) to reach normalcy of the business cycle. Hence, post 40% correction from 52 high stock is available at attractive valuation. We maintain our **BUY** rating on the stock with a revised target price of ₹ 190/share.

Exhibit 17: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	2,796.2	2747.9	(1.7)	3,185.2	2903.5	(8.8)	3583.6	3278.4	(8.5)
EBITDA	302.0	280.3	(7.2)	353.6	296.2	(16.2)	415.7	363.9	(12.5)
EBITDA Margin %	10.8	10.2	-60bps	11.1	10.2	-90bps	11.6	11.1	-50bps
PAT	221.1	205.2	(7.2)	262.2	221.5	(15.5)	305.4	269.0	(11.9)
EPS (₹)	5.2	4.8	(7.2)	6.1	5.2	(15.5)	7.2	6.3	(11.9)

Source: Company, ICICI Direct Research

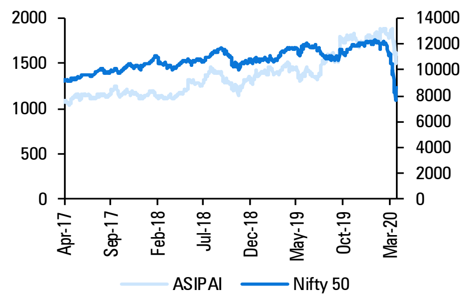
Exhibit 18: Key financial summary

(₹ Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2311.7	2566.4	2747.9	2903.5	3278.4	9.2
EBITDA	186.9	219.4	280.3	296.2	363.9	13.9
EBITDA Margin (%)	8.1	8.5	10.2	10.2	11.1	
PAT	133.1	165.5	205.2	221.5	269.0	14.5
EPS (₹)	3.1	3.9	4.8	5.2	6.3	
P/E(x)	48.8	39.3	31.7	29.5	24.3	
Price /Book Value (x)	8.6	7.2	6.8	6.1	5.3	
EV/EBITDA (x)	34.3	28.9	22.6	21.4	17.3	
RoE (%)	17.7	18.4	21.5	20.7	21.7	
RoCE (%)	23.7	23.7	28.4	27.1	28.4	

Source: Company, ICICI Direct Research

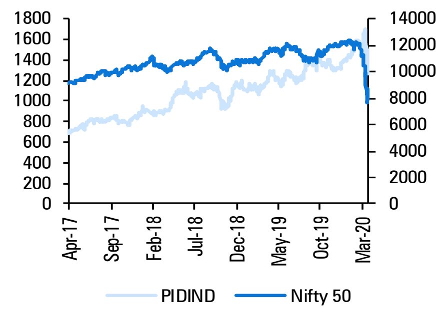
Exhibit 17: Price Charts

Asian Paints



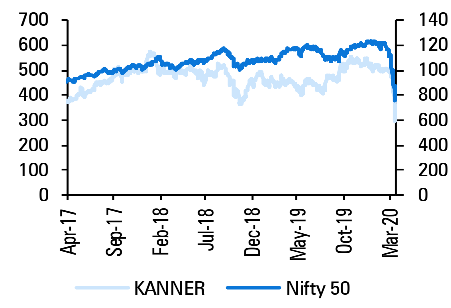
Source: Capitaline ICICI Direct Research

Pidilite Industries



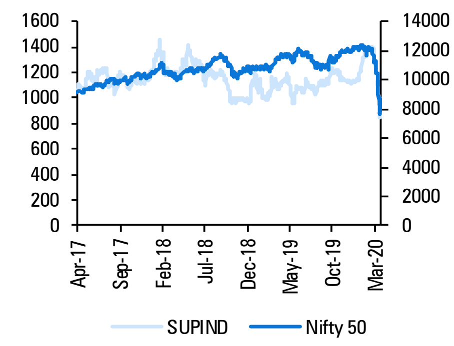
Source: Capitaline, ICICI Direct Research

Kansai Nerolac



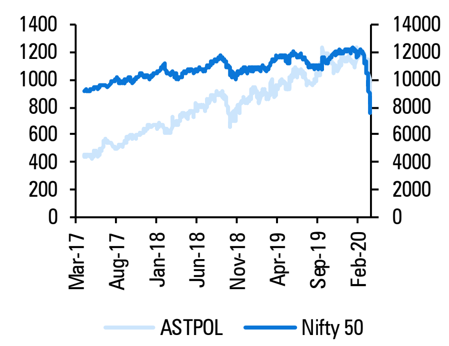
Source: Capitaline, ICICI Direct Research

Supreme Industries



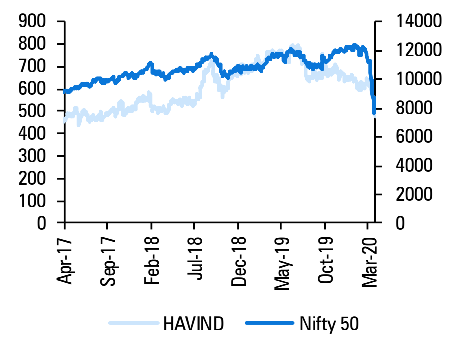
Source: Capitaline, ICICI Direct Research

Astral Poly



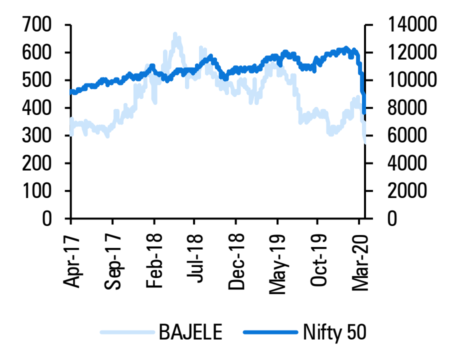
Source: Capitaline, ICICI Direct Research

Havells India



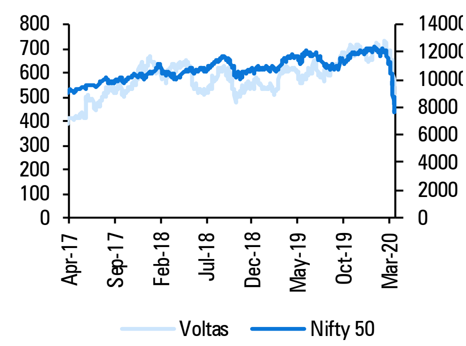
Source: Capitaline, ICICI Direct Research

Bajaj Electricals



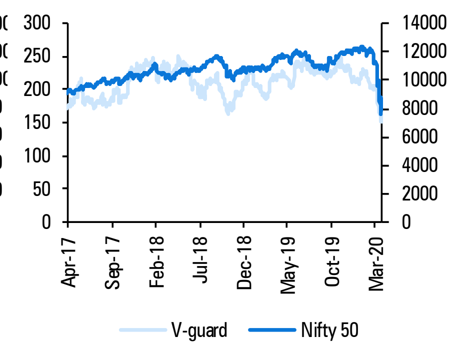
Source: Capitaline, ICICI Direct Research

Voltas Ltd



Source: Capitaline ICICI Direct Research

V-guard



Source: Capitaline, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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