

27 February 2017

Initiating Coverage (BUY)

VETO SWITCHGEARS & CABLES LTD

CMP

INR 137

Target Price

INR 182

Stock Details

Industry	OTHER ELECT. EQUIP. /PROD.
Bloomberg Code	VSCL:IN
BSE Code	539331
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	2,512.6
52wk. Low/High (Adjusted) (Rs.)	85.00/174.90

Shareholding Pattern Dec '16

Promoter (%)	58.19
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	41.81
No. of Share Outstanding (mn)	18.33

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	17.95	19.20	16.00	16.00
EV/EBITDA (x)	81.91	95.87	103.87	106.37
P/BV (x)	17.66	31.06	29.75	27.57

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	973	1,767	1,909	2,100
EBITDA	157	261	284	310
Net Profit	71	131	186	208
EPS (Rs.)*	3.9	7.1	1.0	1.1

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	16.1	14.8	14.9	14.7
EBIT Margin (%)	14.0	13.6	13.8	13.6
Net Pro. Margin (%)	7.3	7.4	9.7	9.9
Debt/Equity (x)	0.09	0.07	0.06	0.05
RoNW (%)	10.3	17.1	20.6	18.9
RoCE (%)	9.5	15.8	19.2	17.8

One Year Price / Volume



We recommend 'BUY' on Veto Switchgears & Cables LTD for a target of INR 182 - valuing the company at P/E 16x of FY18E Earning.

INVESTMENT RATIONALE:

- Established reputation for quality products
- Driving growth through innovation and marketing.
- Relationship with more than 2,000 dealers.
- Experienced management team and Dedicated team of technical manpower.
- The Company has many opportunities in view of the increasing demand for wires & cables and electrical accessories.
- Restructuring and consolidation of group businesses under the listed entity can create value for shareholders.
- Largest electrical cables/wires player in Rajasthan, fivefold revenue target in next 5 years.
- Planning to open 100 retail outlets.
- Higher construction activity could help industry sales.
- Rural electrification, pay revision and MNREGA could boost demand.

VALUATIONS AND VIEW:

Veto is India's first company to produce ISI mark electrical accessories in INDIA. It is engaged in the manufacturing of electrical accessories, and wires and cables in India and internationally. The company uses high quality raw material to give best products to its customers. VETO holds a major share of market in India. **We value the business at 16x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 182 per share.**

RISK & CONCERN

- **Competition:** Fragmented and highly competitive Business with low entry barriers. Manufacturing of electrical products is relatively low-tech process which has low entry barriers. Consequently, the industry is fragmented with several small and large players.
- **Volatility in key raw material prices:** Volatility in raw material prices namely, copper, PVC resin and aluminium can affect the financial working.
- **Margins could contract because of foray into new geographies:** Veto is planning to enter into new areas which will entail high selling and marketing cost apart from higher employee costs.

COMPANY BACKGROUND:

Veto Switchgears and Cables Ltd (Veto) was founded in 1967 and is based in Jaipur, India. It is a subsidiary of Veto Electropowers (India) Private Limited. It is engaged in the manufacturing of electrical accessories, and wires and cables in India and internationally. It markets its products under the VETO and VIMAL POWER brand names through a network of dealers. Company strives to set new benchmarks in providing high quality products at competitive rates.

Veto is India's first company to produce ISI mark electrical accessories in INDIA. The company uses high quality raw material to give best products to its customers. VETO holds a major share of market in India. The company has a strong distribution network of 2500 dealers across the country to provide quality products to their valued customers. It has a strong team of highly qualified professionals who strive to innovate the best products with the use of advanced high tech machinery. The group sustained the position as a leading supplier of electrical goods in the gulf countries for a time period of more than a decade.

Products-

- Electrical Accessories
- Wires and Cables
- CFL and T5 Fitting
- Fans
- Led Light

INDUSTRY OVERVIEW:

The electronics market of India is one of the largest in the world and is anticipated to grow at a compound annual growth rate (CAGR) of 24.4 per cent during 2012-2020. Separately, forecasts say that the electric wire and cable market in India is to grow at a CAGR of 16.18percent over the period 2015-19. The Indian wire and cable industry is growing satisfactorily and getting more and more consolidated and becoming largely organized now. Construction cables and wire sector anticipated to see steep growth in demands in coming days owing to huge govt's, spending in infrastructure, smart cities, real estate boom, and housing explosion.

Also, the year 2015 started off on a good note for the LED industry in India. PM's initiative to launch Notional programme for LED based Home & street lightning as well as a scheme for LED distribution under the domestic Efficient Lighting program is highly valued for the growth of India. The Prime Minister's initiative has accelerated the adoption of LED's in several sectors across the country through the creation of several new policies and financial subsidies. This has helped propel the industry to grow five folds in five year from its current size of Rs.4000 crores.

Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Havells India	409	41.5	25,569.1	1.47	153.0	11.75	1,506.0	13.20	8.28
Finolex Cables	166	20.3	6,786.7	0.56	68.4	37.77	675.4	10.25	5.24
Shilpi Cable	220	12.6	2,438.9	0.51	33.5	(9.11)	1,016.8	4.15	2.78
Honeywell Auto	9,984	49.5	8,825.9	0.10	64.0	103.11	673.7	12.18	7.63
Apar Inds.	745	16.7	2,869.7	0.87	43.3	54.44	1,132.6	(4.59)	3.19
V-Guard Inds.	213	42.3	6,431.7	0.33	28.0	30.17	459.6	10.40	11.08
KEI Inds.	172	15.3	1,338.9	0.29	27.2	82.91	716.2	29.43	3.09
Veto Switchgears	137.1	16.0	2,512.6	1.44	3.1	NaN	55.3	NaN	31.06

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	291.03	339.66	316.37	310.77	244.72	-15.91%	-21.25%
Other Income	0.69	6.1	4.84	6.54	25.61		
Total Income	291.72	345.76	321.21	317.31	270.33	-7.33%	-14.81%
Expenditure	-286.00	-267.94	-267.91	-265.98	-217.30		
As a % of Sales	98.27%	78.88%	84.68%	85.59%	88.80%		
Interest	-10.28	-13.3	-11.36	-9.9	-10.85	5.54%	9.60%
PBDT	-4.57	64.53	41.93	41.43	42.18		
As a % of Sales	-1.57%	19.00%	13.25%	13.33%	17.24%		
Depreciation	-5.15	-4.79	-4.02	-4.11	-4.25		
PBT	-9.72	59.74	37.91	37.32	37.93	-490.23%	1.63%
As a % of Sales	-3.34%	17.59%	11.98%	12.01%	15.50%		
Tax	1.11	-9.94	-8.28	-8.15	-6.28	-665.77%	-22.94%
Net Profit	-8.6	49.8	29.63	29.16	31.65	-468.02%	8.54%
As a % of Sales	-2.96%	14.66%	9.37%	9.38%	12.93%		
Equity	183.27	183.27	183.27	183.27	183.27	0.00%	0.00%
EPS (Rs)	-0.47	2.72	1.62	1.59	1.73	-468.09%	8.81%
CEPS (Rs)	-0.19	2.98	1.84	1.82	1.96		
OPM %	1.97	22.91	16.85	16.52	21.67		
NPM %	-2.96	14.66	9.37	9.38	12.93		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	741	945	973	1,767	1,909	2,100	2,310
Other Operating Income	3	9	5	2	7	10	9
Expenditure	630	837	821	1,509	1,631	1,800	1,989
EBITDA	114	117	157	261	284	310	329
Depreciation	11	12	20	20	21	23	25
EBIT	103	105	137	241	263	287	305
Interest Expenses	25	20	40	46	63	62	72
PBT	79	84	98	196	200	225	232
Tax	17	23	26	23	14	17	18
Other Income	-	-	-	-	-	-	-
Extraordinary Items	(2)	-	-	(42)	-	-	-
Net Income Before Adjustment	59	61	71	131	186	208	215
Minority Int./Income from Assoc.	(0)	(0)	-	-	-	-	-
Adjusted PAT	59	61	71	131	186	208	215

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	167	183	183	183	183	183	183
Reserves & surplus	428	472	543	626	816	1,024	1,238
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	594	655	727	809	999	1,207	1,422
Minority Interest	0	0	-	-	-	0	0
Share Application Money	-	-	-	-	-	-	-
Loan Funds	6	63	63	60	62	60	58
Net deferred tax liability	2	1	-	-	-	-	-
Other Long-term Liabilities	-	-	-	-	-	-	-
Long-term Provisions	0	0	1	1	1	1	1
Total Liabilities	603	722	791	872	1,063	1,271	1,483
Net block	98	215	218	238	249	259	268
Investment, Loan & Adv.	43	164	181	195	201	221	243
Total Current Assets	593	741	813	990	1,148	1,375	1,611
Current Liabilities & Provisions	131	400	422	553	536	586	640
Net Current Assets	462	341	391	437	612	789	971
Total Assets	603	722	791	872	1,063	1,271	1,483

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	215	204	216	225
Cash Flow from Investments	(78)	(47)	(53)	(56)
Cash Flow from Financing	(0)	(69)	(27)	(34)
Net Changes in Cash	136	88	136	136
Opening Cash	16	152	240	376
Closing Cash Balance	152	240	376	512

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