CRISIL SME IER IndependentEquityResearch

Veto Switchgears and Cables Ltd

Initiating Coverage

Enhancing investment decisions

Explanation of CRISIL SME Fundamental and Valuation (CFV) matrix

The CRISIL SME CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through SME Fundamental Grade) and Analysis of Returns (SME Valuation Grade) The SME fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals). The SME valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP). This opinion is a relative assessment in relation to other SMEs in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research.

CRISIL SME Fundamental Grade	Assessment	CRISIL SME Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Veto Switchgears and Cables Ltd

Switching on a bright future

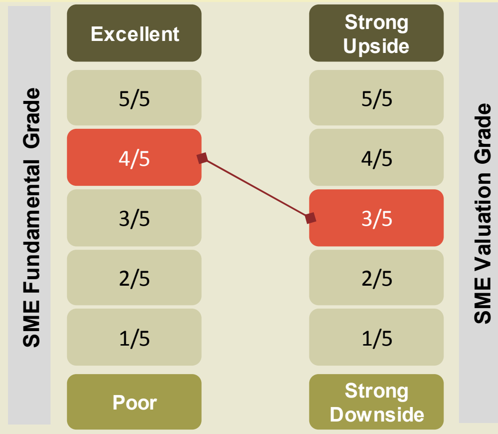
SME

SME Fundamental Grade	**4/5 (Superior fundamentals)**
SME Valuation Grade	**3/5 (CMP is aligned)**

January 29, 2013

Fair Value	**₹45**
CMP	**₹50**

SME CFV MATRIX



Jaipur-based Veto Switchgears and Cables Ltd (Veto) is a manufacturer of wires, cables and electrical accessories and has a strong presence in north western India. A wide product range and focus on branding and distribution have enabled Veto to register 18% CAGR in revenue over FY09-12. We are positive on Veto's future prospects on account of healthy growth in demand from key consuming sectors such as real estate, construction and consumer durables. Further, increasing consumer preference for branded products is also expected to aid industry growth. Led by an experienced management, we believe the company will be able to successfully compete in the fragmented Indian market. We have assigned SME Fundamental Grade of **4/5** to Veto, indicating that its fundamentals are **superior** relative to other SMEs in India.

End user industries to grow on the back of private consumption growth

Demand for Veto's products will be driven by increase in disposable per capita income of Indians, which in turn will drive demand for real estate, construction and consumer durables industries. Veto is also well-positioned to benefit from increased consumer preference for branded products in case of electrical accessories and household appliances. Lastly, better availability of electricity, especially in rural areas, is likely to lead to higher demand for electrical products and appliances.

Veto benefits from promoters' extensive experience

Veto is largely a promoter-driven company. The promoters have extensive experience in the electrical products business. The management has focussed on increasing Veto's regional penetration by increasing the number of dealers over FY09-12 at 20% CAGR. The company has also launched new products (fans and CFLs in FY12) to further leverage the distribution strength. Veto's parent, Veto Electropowers (VEIPL), is manufacturer/exporter of electrical wires and cables (same products line), which is a potential conflict of interest.

Key risks: Electrical products industry is fragmented and highly competitive

Manufacturing of electrical products is a relatively low-tech process which lowers the entry barriers. Consequently, the industry is fragmented with several small and regional players. Also, since Veto is a small player, it needs to offer longer credit period to its dealers, leading to higher working capital requirement. Other risks include dependence on a single supplier for copper (key raw material), regional concentration and slowdown in end-user sectors.

Expect revenues to grow at 15.6% CAGR over FY12-15

We expect Veto's revenues to grow by 15.6% CAGR over FY12-15, driven by demand from end user industries and foray into new regions. We expect EBITDA margin to decline to 14.6% by FY15 as we expect Veto's selling costs to increase as the company increases its presence in other states. Adjusted PAT margin is expected to decline from 10.5% in FY12 to 10.1% in FY15 due to increase in effective tax rate.

Valuation: We assign valuation of ₹45 per share

We have used the discounted cash flow method to value Veto and arrived at a fair value of ₹45 per share. This fair value implies a P/E multiple of 7.9x FY14E and 7.1x FY15E and P/B multiple of 1.1x FY13E and 1.0x FY14E.

KEY FORECAST

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Operating income	532	686	799	924	1,061
EBITDA	71	111	125	139	155
Adj net income	49	72	74	96	107
Adj EPS-₹	4.6	6.7	4.6	5.8	6.4
EPS growth (%)	4.9	47.1	(31.5)	25.4	11.4
RoCE (%)	15.9	23.0	18.8	16.6	17.4
RoE (%)	28.8	30.8	17.9	15.2	14.9

**Includes 834,000 equity shares issued to designated market maker Keynote Capitals Ltd.

Source: Company, CRISIL Research estimates

KEY STOCK STATISTICS

NIFTY/SENSEX	6075/20103
NSE EMERGE ticker	VETO
Face value (₹ per share)	10
Shares outstanding (mn)	17
Market cap (₹ mn)/(US$ mn)	837/16
Enterprise value (₹ mn)/(US$ mn)	821/15
Free float (%)**	30%

SHAREHOLDING PATTERN

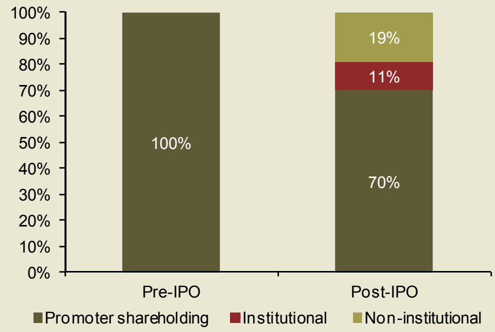


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Table 1: Veto Switchgears and Cables Ltd – Business environment

Parameter	Electrical products
Revenue Contribution (FY12)	100%
Revenue Contribution (FY14)	100%
Revenue CAGR (FY09-12)	18.0%
Revenue CAGR (FY12-15)	15.6%
Product/service description	Industrial, stand, telephone cables and co-axial wires, general and modular switches, ceiling and rechargeable fans, compact fluorescent lamps (CFLs) and other electrical accessories
Geographic presence	India
Market position	Highly fragmented industry with several small and regional players. Veto is a smaller player compared to leading players such as Havells, Bajaj Electricals, and V-Guard
Demand drivers	■ Increase in per capita disposable income of Indians which in turn drives demand for real estate, construction and consumer durables segments ■ Increasing preference for branded products, especially in case of electrical accessories and household appliances. ■ Better availability of electricity, especially in rural areas, leading to increase in demand for electrical products and appliances.
Key challenges	■ Highly competitive nature of the industry ■ Veto's working capital cycle is over 200 days. Since the company is a small player, it has to offer a longer credit period to its dealers to counter intense competition ■ The company depends on a single supplier for copper, which is the key raw material for its products ■ Slowdown in key end-user sectors may affect demand

Source: Company, CRISIL Research

Grading Rationale

Established regional player

Veto derives 70% of its revenues from Rajasthan

Veto Switchgears and Cables Ltd (Veto) manufactures and sells wires, cables and electrical accessories and has a diversified product basket with around 20 product categories including industrial, stand, telephone cables and co-axial wires, general and modular switches, ceiling and rechargeable fans, compact fluorescent lamps (CFLs) and other electrical accessories. Except for CFLs and fans (the production of which are outsourced), all products are manufactured in Hardwar, Uttarakhand.

The company sells electrical accessories under the 'Veto' brand, and wires and cables under the 'Vimal Power' brand. Veto's brands are well known in Rajasthan and the company derives nearly 70% of its revenues from the state. The company is also present in Delhi, Gujarat, Madhya Pradesh, West Bengal and Assam and has nearly 2,400 dealers (including those in Rajasthan). As of FY12, the company derives around 54% of its revenues from wires and cables while the rest is from the sale of electrical accessories. Over FY09-12, Veto's revenues have grown by 18% CAGR led by growth in demand for electrical products as well as the company's focus on branding, increasing distribution and new product launches across different price points.

Strong demand prospects for electrical products

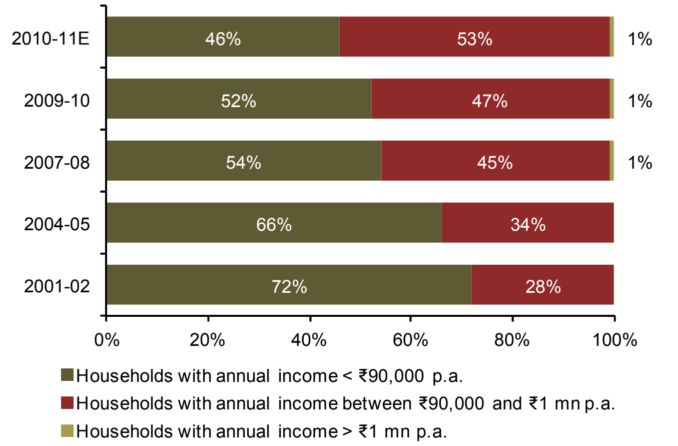
We are positive on the demand prospects for electrical products; increase in consumer spending in India will drive sectors such as real estate, construction and consumer appliances, which will increase the use of electrical products. Further, Veto is positioned to benefit from growing consumer preference for branded products, the company's established position and management's vast industry experience. However, as Veto's scale of operations is small, with limited product offerings compared to bigger industry players, we believe its objective of establishing itself in other regions of India is likely to take some time.

Demand driven by India's macro trends; growth momentum to continue

We believe that demand for Veto's products (electrical accessories and wires and cables) will grow in the future on account of:

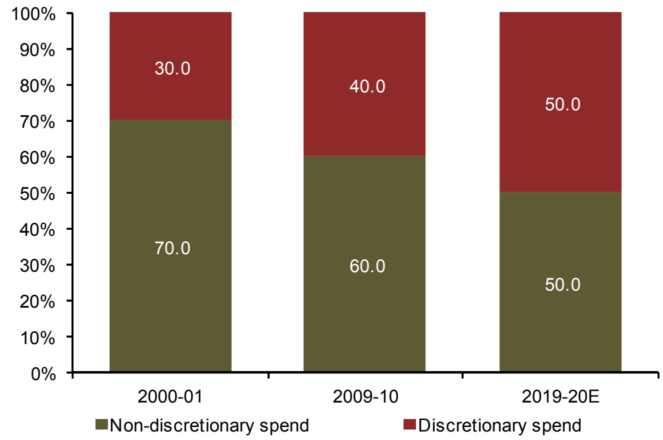
- Increase in per capita disposable income of Indians which will drive demand for real estate, construction and consumer durables segments and a consequent increase in the use of electrical products
- Increasing preference for branded products, especially in case of electrical accessories and household appliances
- Better availability of electricity, especially in rural areas, leading to increase in demand for electrical products and appliances

Figure 1: Disposable income of Indian households has risen



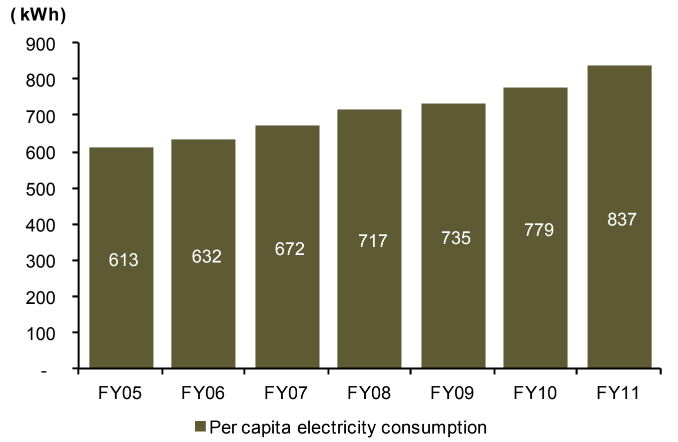
Source: NCAER, CRISIL Research

Figure 2: Growth in consumer discretionary spending



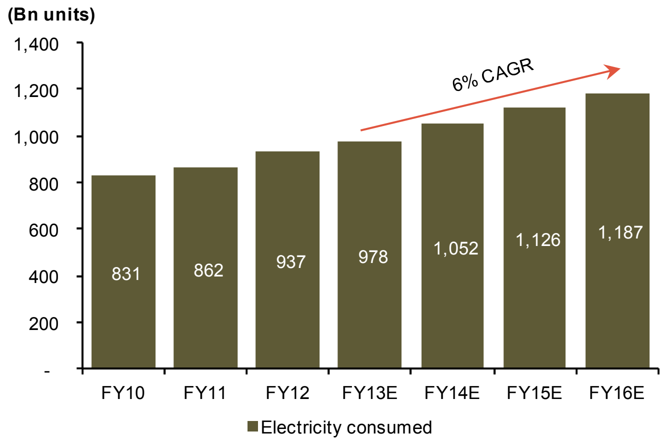
Source: United Nations, CRISIL Research

Figure 3: Per capita electricity consumption is growing



Source: Central Electricity Authority, CRISIL Research

Figure 4: Power demand to grow at 6.0% CAGR in XII Plan



Source: Central Electricity Authority, CRISIL Research

Table 2: Demand for electrical products

Product	Estimated market size	Major players	Growth prospects
Cables & Wires – industrial and domestic	₹170 bn	Polycab, Finolex, KEI, V-Guard, Havells	Low entry barrier business, with nearly 50 branded players and several unbranded players. Expect industry to grow by 10-12% led by increased electrification, especially in rural households
Switches	₹14 bn	Anchor, Havells, Legrand, Schneider, Standard Electricals	Although there is an abundance of local players, organised players dominate the market. However, there is an influx of Chinese products in this category. Market for modular switches is growing in excess of 20% per annum.
Fans	₹38 bn	Crompton, Usha, Orient, Khaitan	Rising disposable income, increase in housing, rural electrification and consumer preference towards branded products
CFL	₹10 bn	Philips, Osram, Havells	More than 10 branded players and several unbranded players in the industry. Philips is the market leader. Key growth drivers are increased awareness for energy conservation and growth in real estate and construction. CFL penetration in India is 3%, compared to 33% in Singapore and 40% in South Korea.

Source: Industry, CRISIL Research

Veto: Focus on branding and distribution has led to rapid growth

Veto's revenues registered a healthy 18% CAGR over FY09-12. We believe that focus on branded products coupled with increase in dealer network has been chiefly responsible for Veto's growth in the past. The company sells its products under 'Veto' and 'Vimal Power' brands which are well known in northern India. The company has also been proactive in augmenting its product portfolio. It recently launched CFLs and fans under the 'Veto' brand. It has also introduced products at various price points; for example, it sells premium category modular switches under the 'Carino' brand and affordable switches under the 'Puf' brand.

Table 3: Veto has products at different price points

Series for Switches	Price range*
Carino	₹82-110
Power	₹78-102
FM	₹24
Puf	₹20
Nobel	₹18

*Prices for one piece of one-way 6 ampere switch

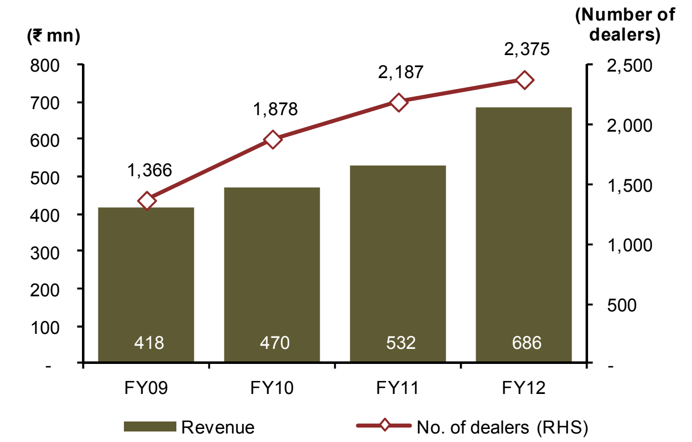
Source: Industry, CRISIL Research

While the 'Veto' brand is owned by Veto Switchgears and Cables Ltd, 'Vimal Power' is owned by its parent, Veto Electropowers India Pvt. Ltd. (VEIPL). Both Veto and VEIPL are entitled to use each others' brands but do not pay any royalty.

Veto has an extensive distribution network in Rajasthan. Total number of dealers (including other states) has grown from 1,366 in FY09 to 2,375 in FY12. Firmly entrenched in Rajasthan, the company now plans to strengthen its presence in other regionsby increasing its dealer network. Veto's products are already available in Gujarat, Delhi, West Bengal, Madhya Pradesh and Assam.

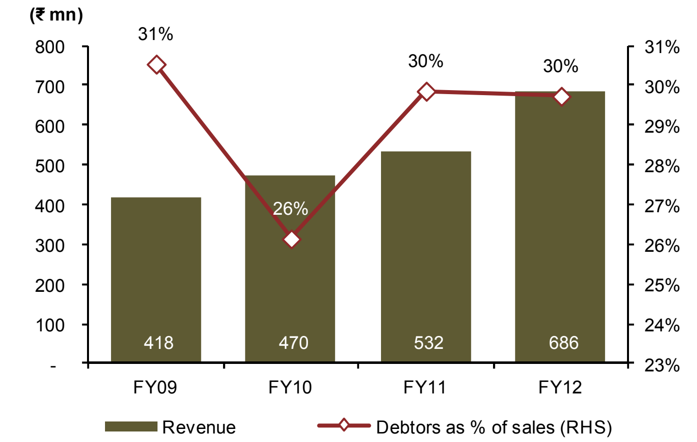
Historical revenue growth has been supported by continuous addition of dealers

Figure 5: Increase in dealer base aided revenue growth



Source: Company, CRISIL Research

Figure 6: Receivables have increased with sales growth



Source: Company, CRISIL Research

Going forward, Veto is expected to invest more in working capital and will finance the incremental long term working capital requirements through the IPO proceeds.

Management plans to export electrical accessories

Going forward, Veto plans to export electrical accessories. The company, through its subsidiary Veto Electricals Pvt. Ltd, has acquired 3 acres of land in Mahindra World City SEZ (Jaipur) for ₹17 mn. Veto will set up an export-oriented manufacturing unit for electrical accessories and expects to commence operations in three to four years. We have currently not factored this in our projections as the management is yet to take key decisions such as capacity of the new facility, capital expenditure and others.

Veto is a small player compared to its listed peers

In the past few years, most of the leading players in the electrical products industry have posted healthy top-line growth (>15% CAGR) led by the boom in real estate/construction and consumer durable sectors due to focus on increasing their distribution reach and branding. Although Veto's revenues have grown at 18% CAGR over FY09-12, it is still a small player in the overall domestic market compared to the likes of Havells, V-Guard Industries and others. Veto currently derives much of its revenues from Rajasthan (70%) while bigger players usually have a strong presence in multiple states or regions.

Table 4: Peer comparison

Parameters	Veto Switchgears & Cables	Havells	Bajaj Electricals	Anchor	V-Guard Industries	Finolex Cables	KEI Industries
Product / Service	Manufactures cables, wires, electrical accessories such as switchgears and other items	Manufactures switchgears, cables and wires, consumer durables, lighting and luminaries	Manufactures and markets consumer durables, lightings and luminaries. The company is also into engineering and projects business	Manufactures cables, wires , lighting, luminaries, consumer durables and home automation systems	Manufactures industrial and domestic switchgear, cables and wires, consumer durables	Manufactures cables and wires, switches lighting and luminaries and pipes and fittings	Manufactures cables and wires
Market capitalisation (₹ mn)	850	81,135	18,448	Unlisted	15,062	8,458	1,033
Revenue (₹ mn)	686 (FY12)	40,109 (FY12)	31,443 (FY12)	10,136 (FY09)	10,091 (FY12)	22,188 (FY12)	18,385 (FY12)
Revenue Growth (FY09-12 CAGR)	20.8%	19.7%	20.4%	46.5% (FY06-09)	45.2%	12.6%	19.0%
Average EBITDA margin (FY10-12)	13.9%	12.0%	10.2%	15.3% (FY07-09)	10.6%	10.4%	8.1%
Average PAT margin (FY10-12)	9.6%	8.0%	4.8%	7.2% (FY07-09)	5.4%	3.9%	1.2%
Average RoE (FY10-12)	33.5%	20.8%	26.1%	32.0% (FY07-09)	7.2%	11.7%	24.3%
Debtors as % of revenue (Average FY10-12)	29%	4%	36%	33% (FY07-09)	5%	26%	16%
Selling costs as % of revenue (Average FY10-12)	2%	13%	6%	8% (FY07-09)	5%	3%	10%

Note: Standalone financials

Source: Industry, CRISIL Research

Going forward, Veto's management plans to expand the company's presence in other Indian states and is in the process of setting up distribution networks in these regions. We believe the company will face competition as it tries to break into new regions on account of presence of bigger as well as unorganised players. While in the past, Veto's selling costs have been low compared to its peers, we expect its selling costs to rise as the company undertakes more advertising and sales promotion activities. The company intends to spend ₹20 mn, from funds raised through the recently concluded IPO, towards brand-building activities.

Income-tax benefit at Hardwar plant bumps up return on equity

Veto's average PAT margin has been 9.6% over FY10-12 due to the income tax benefits enjoyed by the company's Hardwar (Uttarakhand) plant. Hence the effective tax rate has been negligible in the past, leading to average return on equity in excess of 30% during FY10-12. The facility is currently entitled to income tax benefits and excise duty exemption for a period of ten years (FY08-17). For the first five years of operation (FY08-12) the facility enjoyed 100% income tax holiday. Over FY13-17, it will receive income tax benefit to the extent of 30% of its income tax. Consequently, Veto's effective tax rate is likely to remain below 30% over the next five years.

Key challenges

Working capital intensive operations

Veto's operations are working capital intensive as reflected in its working capital cycle of around 190 days. It has to maintain an inventory of two to three months in anticipation of orders. It also gives credit of around 100 days to its dealers to counter intense domestic competition. However, it gets minimal credit from its supplier of copper, which is a key raw material.

Depends on single supplier for sourcing copper

Copper accounts for nearly 45% of Veto's total raw material costs. The company is entirely dependent on a single supplier for sourcing its copper requirements. The company's margins may be adversely affected in case it is unable to pass on the increases in copper prices to end consumers.

Slowdown in key end user sectors may affect demand

Demand for Veto's products are linked to growth in real estate, construction and consumer appliances sectors. Slowdown in key end-user sectors may affect adversely affect demand for Veto's products and consequently the company's revenue growth.

Management and Corporate Governance

Promoter-driven company with experienced management

Promoters have extensive experience in the electrical products business

Veto Switchgears and Cables Ltd is promoted by the Gurnani-family owned Veto Electropowers India Pvt Ltd (VEIPL). Promoters also occupy most of the key managerial positions. Mr Mohan Das Gurnani is the chairman of the board of directors (non executive), while his brother Mr Vishnu Kumar Gurnani is the managing director. Both have over 30 years experience in the electrical products business. Mr Dinesh Gurnani is a whole-time director and looks after marketing and distribution. Other key management personnel are Mr P.V. Sharma (Group CFO), Mr Govind Gurnani (AVP, Marketing), Mr Vasudev Lalwani (AVP, Marketing) and Mr Mohammad Khalid (Production Head). Senior management personnel are also involved in other activities of the group which include export of wires and cables, hospitality and construction. However, there is no policy for allocation of costs of shared management personnel between the group companies.

Group structure raises potential conflict of interest

Nearly all of the loans taken from related parties have been repaid as of FY12

VEIPL, the holding company of Veto (56% stake post-IPO), is in the same line of business and manufactures and exports wires and cables to Gulf countries. VEIPL is an export oriented unit (EOU). In our opinion, Veto will have to compete with VEIPL if the latter enters the Indian market; this may impact Veto's operations. As per the management, VEIPL does not plan to enter the domestic market. In the past, Veto relied on short term interest free loans from VEIPL. While some of these loans were converted into equity, much of the loans have been repaid as of FY12.

Veto's board consists of six directors, of whom three are independent. We believe the size of the board is appropriate in relation to the current size of the company and its planned progress. The board has diverse expertise in areas of government administration, textiles, finance and marketing. While the independent directors are known to the promoters, they have been associated with Veto only since August 2012.

Financial Outlook and Valuation

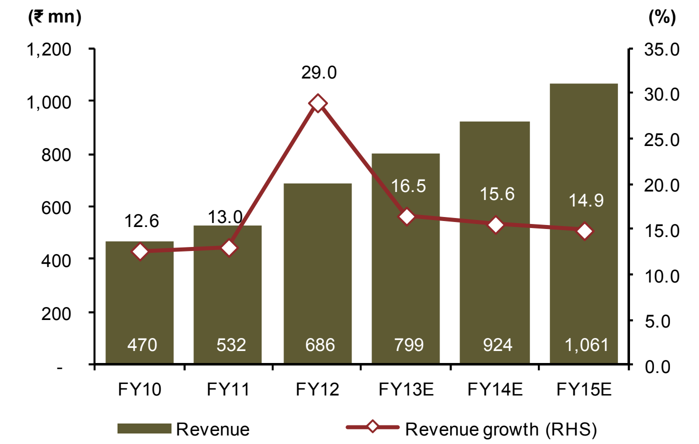
Growth to moderate; expect 15.6% revenue CAGR over FY12-15

Revenue growth will be moderate as Veto will face intense competition in new markets

CRISIL Research expects Veto's revenues to grow to ₹1,061 mn by FY15 at a three-year CAGR of 15.6%. This is lower than the historical growth rate registered by the company – revenues grew by 18% CAGR of FY09-12. We believe that future growth will come through a combination of growth in Veto's existing key market (Rajasthan) as well as foray into other regions. However, as Veto will take time to establish itself in new markets, revenue growth will be moderated. Further, on account of the highly competitive nature of the industry, creating a foothold in new markets will also be a challeng.

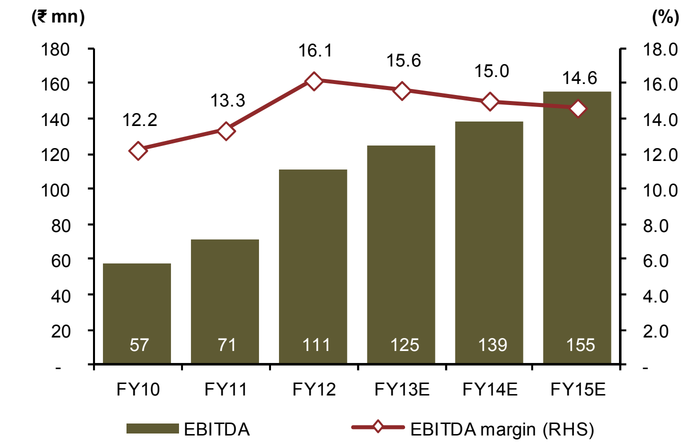
Veto's installed capacity for wires and cables is 14.08 lakh bundles whereas for electrical accessories it is 380 lakh pieces. Capacity utilisation in case of both electrical accessories and wires and cables is less than 30% at present. Therefore, capacity is not expected to be a major growth constraint.

Figure 7: Revenues to grow at 15.6% CAGR over FY12-15



Source: Company, CRISIL Research

Figure 8: Moderation in EBITDA margin due to higher costs



Source: Company, CRISIL Research

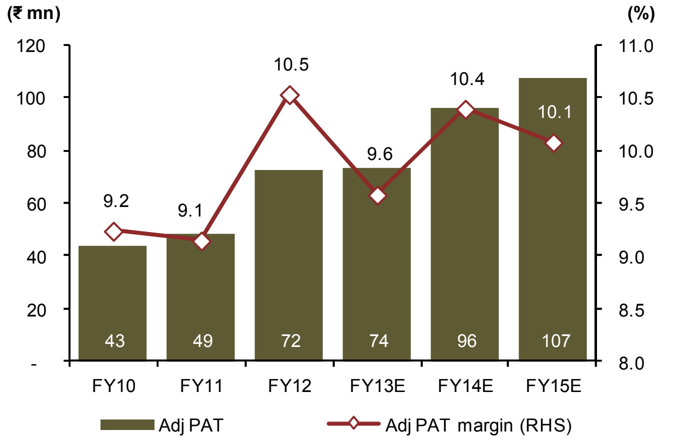
EBITDA margin to contract due to increase in costs

We expect Veto's EBITDA margin to contract to 14.6% in FY15, due to higher selling costs. The company's selling costs are significantly lower compared to peers. Its foray into newer regions will entail higher marketing and selling costs, which will lead to moderation in operating profitability. Further, as the company's scale of operations increases, it will lead to higher employee costs too.

Adjusted PAT to grow at 14.0% CAGR over FY12-14

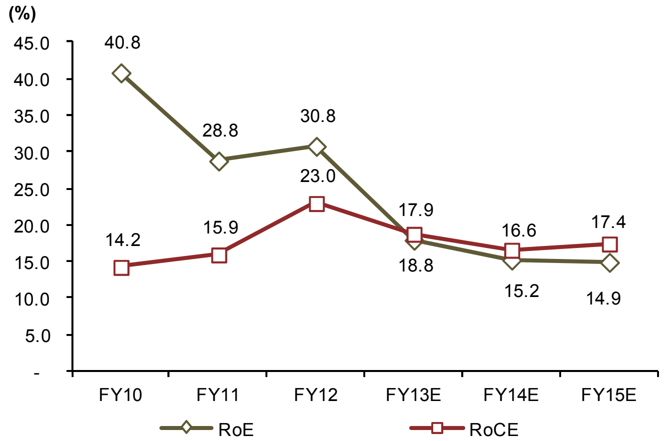
CRISIL Research expects adjusted PAT to increase to ₹107 mn in FY15 at three-year CAGR of 14.0%. Apart from the decline in operating margin, the company's effective tax rate will also increase to 20% by FY15, compared to negligible tax rate historically. This will lead to lower growth in adjusted PAT as well as a marginally lower adjusted PAT margin. The increase in equity is also expected to result in RoE declining to 14.9% in FY15 from 30.8% in FY12.

Figure 9: Adjusted PAT to grow at 14% CAGR over FY12-15



Source: Company, CRISIL Research

Figure 10: RoE to decline largely due to equity infusion



Source: Company, CRISIL Research

We assign fair value of ₹45 per share to Veto

CRISIL Research has used discounted cash flow (DCF) method to value Veto. Our fair value is ₹45 per share. This fair value implies a P/E multiple of 7.9x FY14E and 7.1x FY15E and P/B multiple of 1.1x FY14E and 1.0x FY15E.

Our assigned valuation grade for Veto is '3/5'

Key DCF assumptions

We have projected the free cash flow to firm until FY24. We expect revenues to grow at 14.5% CAGR over FY12-18 and then taper down to 11.5% CAGR over FY18-24. We expect the EBITDA margin to decline to 14.5% by FY16 and remain stable thereafter. We have assumed terminal growth rate in FCFF at 5%.

WACC computation

	FY15-24	Terminal value
Cost of equity	19.3%	19.3%
Cost of debt (post tax)	9.1%	9.1%
WACC	**16.2%**	**16.2%**
Terminal growth rate		5.0%

Sensitivity analysis to terminal WACC and terminal growth rate

		Terminal growth rate				
		3.0%	4.0%	5.0%	6.0%	7.0%
Terminal WACC	14.2%	47	49	54	58	63
	15.2%	44	45	49	52	55
	16.2%	41	42	**45**	48	50
	17.2%	39	40	42	44	46
	18.2%	37	38	40	41	43

Relative Valuation

Veto's peers in the listed space are significantly larger in terms of scale of operations. While Havells is one of the leading players in electrical accessories, wires and cables, and consumer appliances, Bajaj Electrical has strong a presence in electrical accessories and consumer appliances. Finolex Cables, V-Guard Industries and KEI Industries are present primarily in the wires and cables segment. We have also included mid-sized consumer appliances companies such as TTK Prestige, Butterfly Gandhimathi Appliances and Symphony in our analysis. Our fair value of ₹45 per share for Veto implies a discount on FY14 P/E compared to median of 11.5x for comparable companies. We believe that the discount is justified as Veto is a significantly smaller player compared to its listed peers.

Table 5: Relative Valuation

	M.cap	P/E			P/BV			EV/EBITDA			ROE (%)		
Companies	₹ mn	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Electrical Products													
Veto Switchgears**	**850**	**7.6**	**11.1**	**8.9**	**2.0**	**1.5**	**1.3**	**6.6**	**6.7**	**6.1**	**30.8**	**17.9**	**15.2**
Havells India	81,135	21.4	19.4	15.9	8.3	6.2	4.7	11.2	12.8	10.9	46.0	35.7	32.9
Bajaj Electricals	18,448	17.4	16.5	14.8	2.6	2.3	2.0	10.8	8.4	6.1	18.0	16.2	20.2
Finolex Cables	8,458	8.9	6.7	5.2	1.1	0.9	0.8	4.3	4.2	3.5	12.9	13.5	15.0
V-Guard Industries	15,062	29.2	20.0	15.7	7.1	5.5	4.3	16.0	12.6	10.1	30.2	30.6	30.2
KEI Industries	1,033	4.6	2.5	1.9	0.5	0.4	0.3	3.6	2.8	2.3	10.5	15.4	16.9
Consumer Appliances													
TTK Prestige**	37,029	37.4	34.0	26.1	14.8	11.0	8.2	24.0	21.9	16.0	47.5	37.1	36.1
Butterfly Gandhimathi**	5,187	23.7	10.8	9.4	6.0	2.4	2.0	8.6	6.3	5.2	32.6	33.0	23.3
Symphony**	12,767	23.8	19.6	17.3	6.8	5.4	4.4	14.8	12.7	10.6	33.7	30.5	27.9
Median		**21.4**	**16.5**	**14.8**	**6.0**	**2.4**	**2.0**	**10.8**	**8.4**	**6.1**	**30.8**	**30.5**	**23.3**

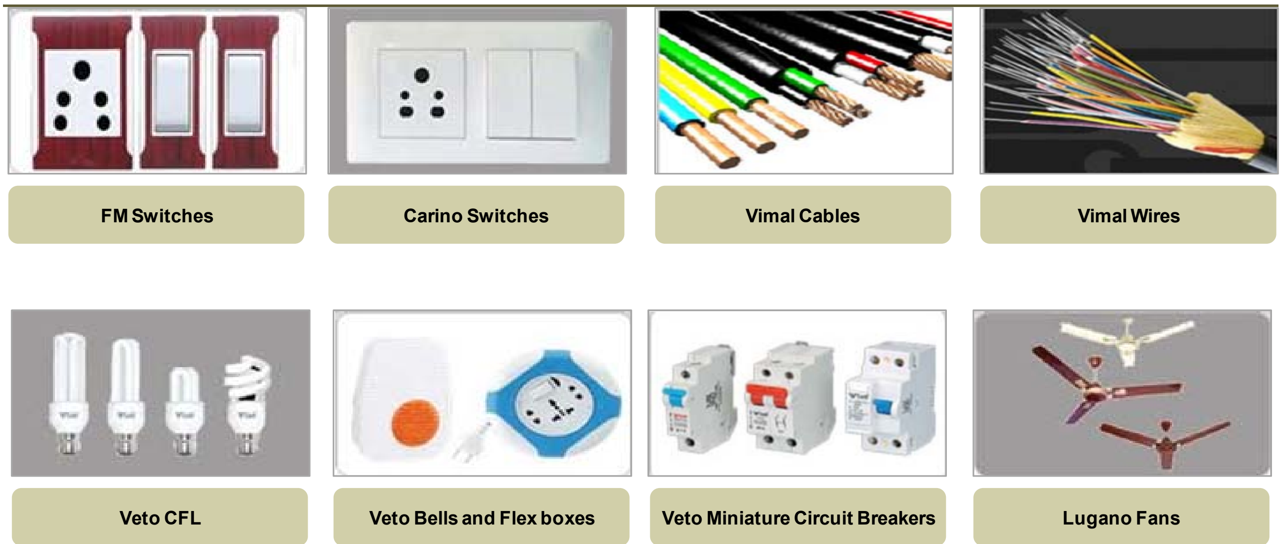
** CRISIL Research estimates

Source: Industry estimates, CRISIL Research

Company Overview

Incorporated in 2003 as a partnership firm under the name Veto Industries, the company's name was changed to 'Veto Switchgears and Cables' in April 2007. Subsequently, in June 2007, the partnership firm was converted into a private limited entity and was re-named as 'Veto Switchgears and Cables Private Ltd'. The company was rechristened as 'Veto Switchgears and Cables Ltd' in 2012. It manufactures and sells wires and cables and electrical accessories in India. The product portfolio encompasses industrial, stand, telephone cables and co-axial wires, general and modular switches, ceiling and rechargeable fans, compact fluorescent lamps (CFLs) and other electrical accessories. Except for CFLs and fans (the production of which are outsourced), all products are manufactured in Hardwar, Uttarakhand. Electrical accessories are sold under the 'Veto' brand while wires and cables are sold under the 'Vimal Power' brand. The company is promoted by Veto Electropowers (India) Pvt. Ltd (VEIPL), which is a subsidiary of Gurnani Holding Pvt. Ltd, which in turn is owned by the Gurnani family. VEIPL manufactures and exports wires and PVC cables to the Gulf countries.

Figure 11: Veto's product offerings



Source: Company, CRISIL Research

Details of Veto's subsidiaries

Group companies	Year of incorporation	Veto's shareholding*	Description
Veto Electricals Pvt. Ltd	24/03/2008	90.00	The company currently does not have any operations. During FY10, it acquired three acres of land in Mahindra World City SEZ for ₹17 mn. The management plans to set up an export oriented manufacturing unit for electrical accessories here. This unit is expected to commence operations in two to three years
Veto Lighting Pvt. Ltd	17/11/2009	51.00	The company currently does not have any operations. The management originally intended to foray into retailing of electrical goods through this entity. However, the company's future plans are uncertain
Vankon Switchgears and Cables Pvt. Ltd	20/04/2011	98.00	The company currently does not have any operations. The management originally intended to sell products under the 'Vankon' brand which is owned by this company. However, future plans for this entity are uncertain

IPO details

The proposed IPO is in the form of fresh issue of shares up to ₹250 mn. Veto plans to use the maximum amount for long term working capital requirements (₹158 mn), modernisation of its existing facility in Hardwar (₹47 mn), and brand building activities (₹20 mn); the remaining to be used for general corporate purposes and to meet issue expenses.

Pre-IPO share holding pattern

Category	Pre-IPO		Post-IPO	
	No. of shares	Percentage	No. of shares	Percentage
Promoter shareholding (A)	11,660,000	100.00	11,660,000	69.98
Institutional (B)	-	-	1,872,000	11.24
Non-Institution (C)	-	-	3,128,000	18.78
Total (A+B+C)	**11,660,000**	**100.00**	**16,660,000**	**100.00**

Source: Company, RHP

Issue details

Type of issue	Fresh issue
Issue size	₹250 mn
Face value	₹10
Price band	₹48 – ₹50
Issue price	₹50
Lead managers	Keynote Corporate Services Ltd, Indian Overseas Bank
Legal advisors to the issue	Mindspright Legal
Registrar to the issue	Bigshare Services Private Ltd

Source: RHP

Objects of issue

Particulars	Total fund requirement (₹ mn)
Modernisation of existing facility in Hardwar, Uttarakhand	47
Incremental long-term working capital requirement	158
Enhancement of the company's brand through advertising and other brand building activities	20
General corporate purposes*	10
To meet the Issue expenses	20
Total*	**255**

*Includes ₹5 mn which will be funded through internal accruals

Source: RHP

Annexure: Financials

Income statement

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Operating income	**532**	**686**	**799**	**924**	**1,061**
EBITDA	**71**	**111**	**125**	**139**	**155**
EBITDA margin	**13.3%**	**16.1%**	**15.6%**	**15.0%**	**14.6%**
Depreciation	9	11	13	16	17
EBIT	**62**	**100**	**112**	**123**	**137**
Interest	13	26	23	15	10
Operating PBT	**49**	**74**	**89**	**108**	**128**
Other income	0	1	1	9	6
Exceptional inc/(exp)	(0)	-	(20)	-	-
PBT	**49**	**75**	**70**	**117**	**134**
Tax provision	1	3	14	21	27
Minority interest	-	-	-	-	-
PAT (Reported)	**49**	**72**	**57**	**96**	**107**
Less: Exceptionals	(0)	-	(17)	-	-
Adjusted PAT	**49**	**72**	**74**	**96**	**107**

Ratios

	FY11	FY12	FY13E	FY14E	FY15E
Growth					
Operating income (%)	13.0	29.0	16.5	15.6	14.9
EBITDA (%)	23.4	56.3	12.5	11.1	11.8
Adj PAT (%)	11.9	48.5	6.0	25.4	11.4
Adj EPS (%)	4.9	47.1	(31.5)	25.4	11.4
Profitability					
EBITDA margin (%)	13.3	16.1	15.6	15.0	14.6
Adj PAT Margin (%)	9.1	10.5	9.6	10.4	10.1
RoE (%)	28.8	30.8	17.9	15.2	14.9
RoCE (%)	15.9	23.0	18.8	16.6	17.4
RoIC (%)	16.8	23.8	19.8	19.6	17.7
Valuations					
Price-earnings (x)	11.0	7.5	10.9	8.7	7.8
Price-book (x)	2.7	2.0	1.4	1.2	1.1
EV/EBITDA (x)	10.1	6.6	6.6	6.0	5.2
EV/Sales (x)	1.3	1.1	1.0	0.9	0.8
Dividend payout ratio (%)	-	-	-	-	23.3
Dividend yield (%)	-	-	-	-	3.0
B/S ratios					
Inventory days	119	119	119	118	118
Creditors days	45	54	43	40	40
Debtor days	113	111	115	119	119
Working capital days	195	189	192	198	196
Gross asset turnover (x)	4.6	5.4	5.9	5.6	5.5
Net asset turnover (x)	5.9	7.5	9.0	8.8	9.0
Sales/operating assets (x)	5.7	7.1	7.4	7.4	8.6
Current ratio (x)	6.2	5.3	8.2	7.8	7.4
Debt-equity (x)	1.0	0.8	0.2	0.1	0.1
Net debt/equity (x)	0.9	0.7	(0.0)	(0.0)	(0.0)
Interest coverage	4.8	3.9	4.9	8.2	14.2

Per share

	FY11	FY12	FY13E	FY14E	FY15E
Adj EPS (₹)	4.6	6.7	4.6	5.8	6.4
CEPS	5.4	7.7	5.4	6.7	7.5
Book value	18.6	25.2	34.9	40.7	45.4
Dividend (₹)	-	-	-	-	1.5
Actual o/s shares (mn)	10.7	10.8	16.7	16.7	16.7

Balance Sheet

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Liabilities					
Equity share capital	53	54	167	167	167
Reserves	145	217	415	511	589
Minorities	-	-	-	-	-
Net worth	**198**	**271**	**582**	**678**	**756**
Convertible debt	-	-	-	-	-
Other debt	200	204	137	87	57
Total debt	**200**	**204**	**137**	**87**	**57**
Deferred tax liability (net)	2	2	2	2	2
Total liabilities	**400**	**477**	**721**	**767**	**815**
Assets					
Net fixed assets	88	95	82	127	109
Capital WIP	6	5	35	5	5
Total fixed assets	**94**	**100**	**117**	**132**	**114**
Investments	1	3	3	3	3
Current assets					
Inventory	142	179	208	240	276
Sundry debtors	164	208	267	322	370
Loans and advances	37	56	56	65	69
Cash & bank balance	21	18	153	98	92
Marketable securities	-	-	-	-	-
Total current assets	**364**	**461**	**684**	**725**	**807**
Total current liabilities	**59**	**87**	**83**	**93**	**109**
Net current assets	**305**	**374**	**601**	**632**	**698**
Intangibles/Misc. expenditure	**0**	**0**	**0**	**0**	**0**
Total assets	**400**	**477**	**721**	**767**	**815**

Cash flow

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Pre-tax profit	49	75	90	117	134
Total tax paid	(1)	(3)	(14)	(21)	(27)
Depreciation	9	11	13	16	17
Working capital changes	(11)	(72)	(92)	(86)	(71)
Net cash from operations	**46**	**11**	**(3)**	**25**	**53**
Cash from investments					
Capital expenditure	(11)	(17)	(30)	(30)	(0)
Investments and others	(1)	(1)	-	-	-
Net cash from investments	**(13)**	**(18)**	**(30)**	**(30)**	**(0)**
Cash from financing					
Equity raised/(repaid)	10	0	254	-	-
Debt raised/(repaid)	(38)	4	(67)	(50)	(30)
Dividend (incl. tax)	-	-	-	-	(29)
Others (incl extraordinaries)	-	0	(20)	-	-
Net cash from financing	**(29)**	**4**	**167**	**(50)**	**(59)**
Change in cash position	5	(3)	135	(55)	(6)
Closing cash	21	18	153	98	92

Source: CRISIL Research

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