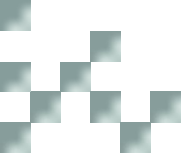


**Veto Switchgears and
Cables Ltd**

H1FY14 Results Update

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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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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Last updated: May, 2013

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

Robust sales growth, EBITDA margin under pressure



SME Fundamental Grade 3/5 (Good fundamentals)
SME Valuation Grade 1/5 (CMP has strong downside)

Veto Switchgears and Cables Ltd's (Veto's) H1FY14 earnings were below CRISIL Research's expectations. It reported revenues of ₹463 mn in H1FY14 against ₹742 mn in FY13. However, EBITDA margin declined sharply to 11.4% from 15.1% in FY13 and was below our estimate of 14.8%. The company reported adjusted PAT of ₹34 mn. We expect margins to remain under pressure given the stiff competition in the industry, which is expected to impact the company's return ratios. Hence, we have lowered the SME fundamental grade to **3/5** from 4/5

Revenue growth driven by accessories segment

During H1FY14, accessories revenues grew faster and constituted 53% of total revenues, up from 40% in FY13. This growth was driven mainly by increase in sales volumes. As per the management, this increase was led by higher sales in Gujarat and Rajasthan. The company had also introduced discount schemes which aided sales growth. Contribution of the wires and cables segment (copper and aluminium cables) declined to 47% from 60% in FY13 as contribution from low-realisation aluminium cables increased. We have increased our FY14 and FY15 revenue estimates for the accessories segment and have lowered the same for the wires and cables segment. Overall estimates have been broadly maintained.

EBITDA margin impacted by sharp increase in raw material prices, discount schemes

Veto's EBITDA margin declined to 11.4% in H1FY14 from 15.2% in FY13. This was mainly due to rise in copper prices in H1FY14 (due to rupee depreciation), which the company was unable to pass on. Margin was also impacted by discount schemes. The company has taken a price hike effective from September 2013 which is likely to improve H2 margin. However, we do not expect margin to return to historical levels due to stiff competition. Accordingly, we have lowered our FY14 and FY15 EBITDA margin estimates by 280 bps and 200 bps, respectively.

Loans and advances increased sharply in H1 due to related party transaction

Loans and advances increased in H1 as Veto paid security deposit of ₹120 mn for a 60,000 sq ft godown that it has leased in Jaipur. This payment was made to a related party. As a result, debt and, hence, interest cost were significantly higher than expected.

Setting up new facility in Mumbai

Veto has shifted its expansion plans from Jaipur to Mumbai. It is setting up a new facility in Mumbai mainly for the export markets; the facility is expected to be operational by FY14-end.

Reduce FY14 and FY15 earnings estimates, lower fair value to ₹27

We have reduced FY14 and FY15 earnings estimates by 31% and 36%, respectively, owing to lowering of EBITDA margin estimates. We have also lowered earnings estimates for FY16-24. We continue to use the discounted cash flow (DCF) method to value Veto and reduce the equity value to ₹487 mn from ₹682 mn. This is on account of (a) reduction in earnings estimates and (b) increase in cost of equity due to hike in base cost of equity by 100 bps and lowering of the fundamental grade. Further, Veto issued bonus shares in the ratio of 1:10 in September 2013 because of which its share capital has now increased from ₹167 mn to ₹183 mn. Accordingly, we revise the fair value to ₹27 per share from ₹37 (₹41 pre-bonus). This fair value implies P/E multiple of 7.6x FY14E EPS and FY15E EPS.

KEY FORECAST

(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	532	686	742	881	985
EBITDA	71	111	112	106	124
Adj net income	49	72	52	64	64
Adj EPS-₹*	4.6	6.7	3.7	3.5	3.5
EPS growth (%)	4.9	47.1	(45.2)	(5.2)	1.0
RoCE (%)	15.9	23.0	18.1	12.7	12.3
RoE (%)	28.8	30.8	14.1	10.2	9.3

*Computed on post initial public offering basis; CMP: Current market price

Source: Company, CRISIL Research estimates



November 27, 2013

Fair Value ₹ 27
 CMP ₹ 56

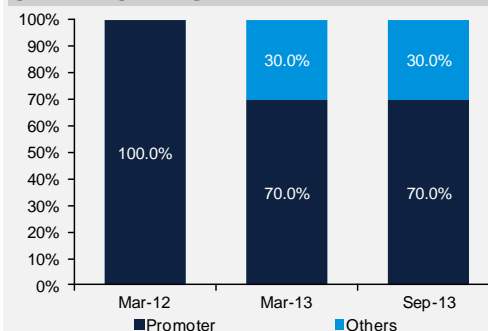
SME CFV MATRIX

	Excellent	Strong Upside
SME Fundamental Grade	5/5	5/5
	4/5	4/5
	3/5	3/5
	2/5	2/5
	1/5	1/5
	Poor	Strong Downside
SME Valuation Grade		

KEY STOCK STATISTICS

NIFTY	6057
NSE EMERGE ticker	VETO
Face value (₹ per share)	10
Shares outstanding (mn)	18
Market cap (₹ mn)/(US\$ mn)	937/15
Enterprise value (₹ mn)/(US\$ mn)	968/16
Free float (%)*	30%

SHAREHOLDING PATTERN



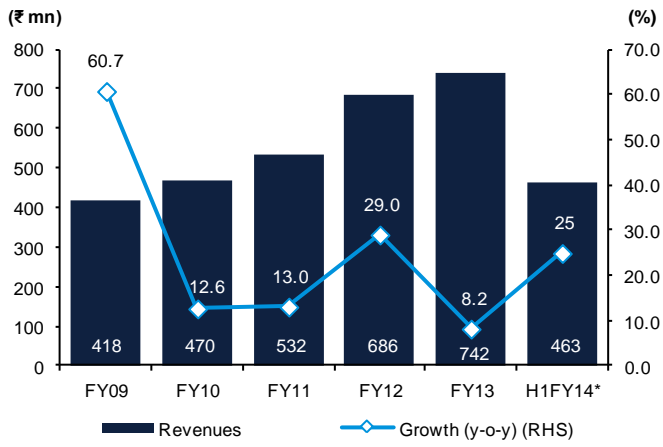
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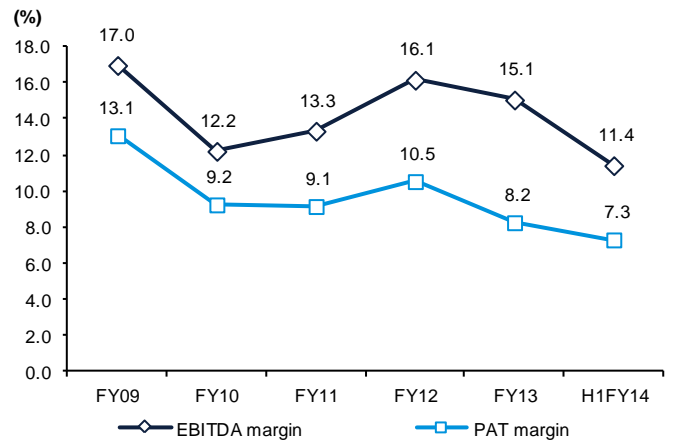
Revenues were up 25% y-o-y on an annualised basis



* Annualised growth

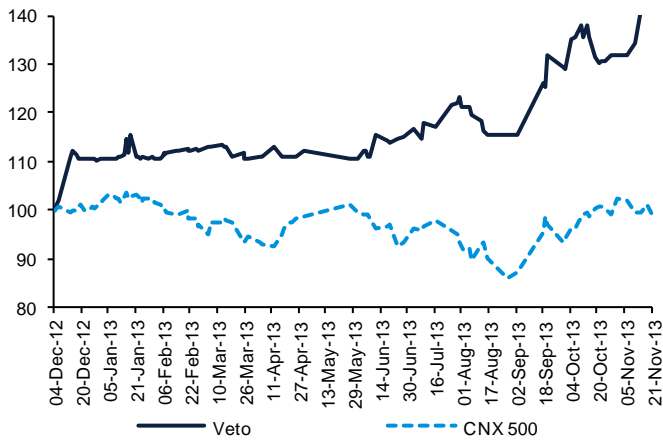
Source: Company, CRISIL Research

EBITDA and PAT margins were below expectations



Source: Company, CRISIL Research

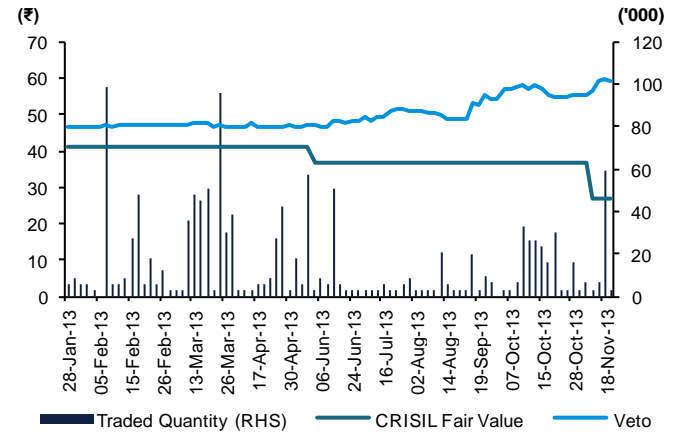
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, CRISIL Research

Earnings Estimates Revised Downwards

	Unit	FY14E			FY15E		
		New	Old	% change	New	Old	% change
Revenue	(₹ mn)	881	859	2.5%	985	986	-0.1%
EBITDA	(₹ mn)	106	127	-16.9%	124	144	-13.8%
EBITDA margin	%	12.0%	14.8%	-280bps	12.6%	14.6%	-200bps
Depreciation	(₹ mn)	11	14	-20.4%	15	16	-8.9%
Interest	(₹ mn)	18	4	297.4%	30	4	719.1%
Other income	(₹ mn)	3	5	-48.1%	1	3	-57.3%
Tax rate	%	20.0%	20.0%	0bps	20.0%	20.0%	0bps
PAT	(₹ mn)	64	91	-30.1%	64	101	-36.4%
PAT margin	%	7.2%	10.6%	-338bps	6.5%	10.3%	-373bps

Source: CRISIL Research estimates

Reasons for changes in estimates

Line item	FY14E	FY15E
Revenues	Broadly maintained	
EBITDA margins	<ul style="list-style-type: none"> Lowered due to lower-than-expected EBITDA margin in H1FY14. We have factored in EBITDA margin of 12.5% in H2FY14 as we expect some recovery due to price hike that the company has taken in September 2013 We expect FY15 EBITDA margin to remain at H2FY14 levels 	
PAT margins	<ul style="list-style-type: none"> Depreciation lowered due to lower-than-expected depreciation rate in H1FY14 Interest cost is expected to increase as debt levels are likely to be higher than expected due to lower profitability and increase in loans and advances Lowered mainly due to lower EBITDA margin 	

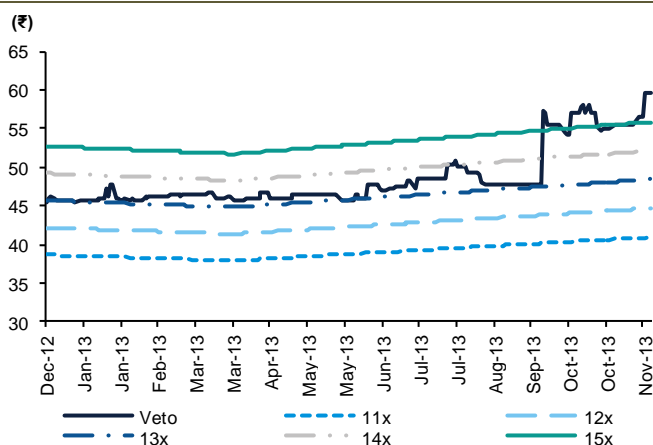
Valuation

Grade: 1/5

We continue to use the DCF method to value Veto and reduce the equity value to ₹487 mn from ₹682 mn. This is on account of (a) reduction in earnings estimates and (b) increase in cost of equity due to hike in base cost of equity by 100 bps and lowering of the fundamental grade. Further, Veto issued bonus shares in the ratio of 1:10 in September 2013 because of which its share capital has now increased from ₹167 mn to ₹183 mn. Accordingly, we revise the fair value to ₹27 per share from ₹37 (₹41 pre bonus). This fair value implies P/E multiple of 7.6x FY14E EPS and FY15E EPS. At the current market price of ₹56, the valuation grade is 1/5.

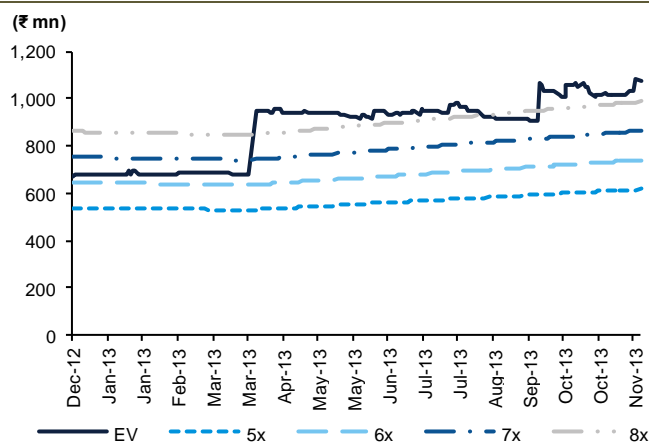
Fair value lowered to ₹27 from ₹37

One-year forward P/E band



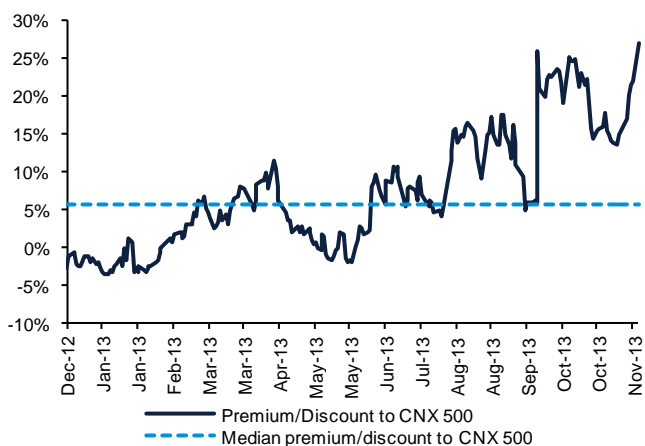
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



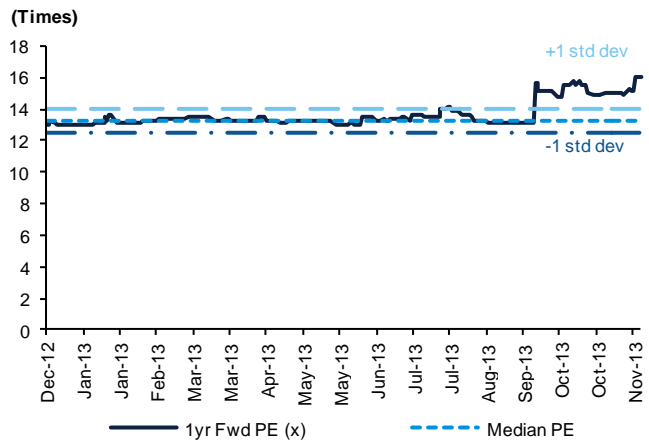
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL SME IER reports released on Veto Switchgears and Cables Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
29-Jan-13	Initiating coverage	4/5	₹41	3/5	₹46#
11-Jun-13	FY13 Result Update	4/5	₹37	2/5	₹46#
27-Nov-13	H1FY14 Result Update	3/5	₹27	1/5	₹56

Adjusted for bonus share issue in the ratio of 1:10 (record date September 10, 2013)

Annexure: Financials

Income statement						Balance Sheet					
(₹ mn)	FY11	FY12	FY13	FY14E	FY15E	(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	532	686	742	881	985	Liabilities					
EBITDA	71	111	112	106	124	Equity share capital	53	54	167	183	183
EBITDA margin	13.3%	16.1%	15.1%	12.0%	12.6%	Reserves	145	217	428	475	540
Depreciation	9	11	11	11	15	Minorities	-	-	-	-	-
EBIT	62	100	101	94	109	Net worth	198	271	594	658	723
Interest	13	26	25	18	30	Convertible debt	-	-	-	-	-
Operating PBT	49	74	77	77	79	Other debt	200	204	45	189	209
Other income	0	1	2	3	1	Total debt	200	204	45	189	209
Exceptional inc/(exp)	(0)	-	(27)	-	-	Deferred tax liability (net)	2	2	2	2	2
PBT	49	75	51	80	81	Total liabilities	400	477	641	849	933
Tax provision	1	3	17	16	16	Assets					
Minority interest	-	-	-	-	-	Net fixed assets	88	95	98	111	122
PAT (Reported)	49	72	34	64	64	Capital WIP	6	5	4	4	4
Less: Exceptionals	(0)	-	(18)	-	-	Total fixed assets	94	100	102	116	126
Adjusted PAT	49	72	52	64	64	Investments	1	3	77	77	77
						Current assets					
						Inventory	142	179	243	290	324
						Sundry debtors	164	208	231	276	309
						Loans and advances	37	56	66	185	207
						Cash & bank balance	21	18	14	19	17
						Marketable securities	-	-	-	-	-
						Total current assets	364	461	555	769	856
						Total current liabilities	59	87	93	114	127
						Net current assets	305	374	462	656	730
						Intangibles/Misc. expenditure	0	0	0	0	0
						Total assets	400	477	641	849	933
						Cash flow					
						(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
						Pre-tax profit	49	75	79	80	81
						Total tax paid	(1)	(3)	(18)	(16)	(16)
						Depreciation	9	11	11	11	15
						Working capital changes	(11)	(72)	(92)	(189)	(76)
						Net cash from operations	46	11	(20)	(114)	3
						Cash from investments					
						Capital expenditure	(11)	(17)	(13)	(25)	(25)
						Investments and others	(1)	(1)	(75)	-	-
						Net cash from investments	(13)	(18)	(87)	(25)	(25)
						Cash from financing					
						Equity raised/(repaid)	10	0	282	17	-
						Debt raised/(repaid)	(38)	4	(158)	144	20
						Dividend (incl. tax)	-	-	-	-	-
						Others (incl extraordinary)	-	0	(20)	(17)	-
						Net cash from financing	(29)	4	104	144	20
						Change in cash position	5	(3)	(4)	4	(2)
						Closing cash	21	18	14	19	17
						Half-yearly financials					
						(₹ mn)					H1FY14
						Net Sales					463
						Change (q-o-q)					NA
						EBITDA					53
						Change (q-o-q)					NA
						EBITDA margin					11.4%
						PAT					34
						Adj PAT					34
						Change (q-o-q)					NA
						Adj PAT margin					7.3%
						Adj EPS					1.8

Source: CRISIL Research

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