

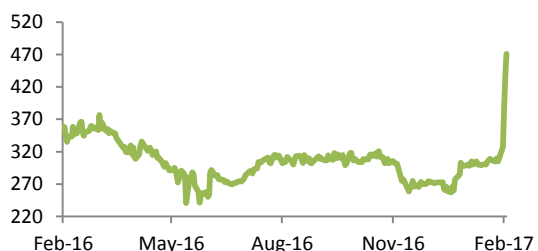
Vaibhav Global Ltd. (VGL)

Recommendation	HOLD
CMP	Rs. 471
Target Price	Rs. 553
Sector	Retail

Stock Details

BSE Code	532156
NSE Code	VAIBHAVGBL
Bloomberg Code	VGM IN
Market Cap (Rs cr)	1,531
Free Float (%)	31.7
52- wk HI/Lo (Rs)	486/236
Avg. volume BSE + NSE (Qrtly)	9,560
Face Value (Rs)	10.0
Dividend (FY 16)	-
Shares o/s (Cr)	3.24

Relative Performance	1Mth	3Mth	1Yr
Vaibhav	58.0%	56.3%	31.3%
Sensex	5.3%	3.0%	16.7%

Shareholding Pattern 31st Dec 16

Promoters Holding	68.30
Institutional (Incl. FII)	19.61
Corporate Bodies	1.98
Public & others	10.11

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Positive Outlook

Vaibhav Global Ltd (VGL) shows early signs of recovery in Q2FY17 which got further reiterated in Q3FY17 results wherein the company showed volume growth in both TV as well as Web sales. As we have keep highlighting that the company's business model involves high fixed cost (cost of channel, employees, inventory etc) hence the leverage of higher growth directly translates to EBITDA level which is evident from the improvement seen in margins during current quarter. EBITDA margins for Q3FY17 improved to 8.6% vs 4.6%/6.5% in Q2FY17/Q3FY16, despite steady gross margins. Net sales grew by 14.7% to Rs 406 cr from Rs 354 cr in Q3FY16. The company has undertaken various steps like including introduction of Budget pay (EMI), allowed return of goods, launch of mobile app, to streamline its business and to become a level field player with the competition. We believe the company has now completed its transition phase and poised for healthy volume growth and strong margins. Management has maintained its low double digit volume growth for Q4FY17 as well which we believe will directly translate to profitability.

Key highlights

- TV sales witnessed volume growth of 15% vs 5% seen in Q2FY17. Web sales saw positive volume growth of 10% after eight quarters of decline.
- Gross margins were marginally lower sequentially to 58.7% from 59.5% in Q2FY17. However it was at par with Q3FY16 levels of 60.5% adjusting for 2% currency impact due to Brexit. For our projections we have forecasted similar level gross margins.
- The company has launched mobile app in US and will soon launch mobile app for UK market too.
- The company undertakes auction during Christmas time which benefits the margins in Q3. Hence margins see 2-3% decline sequentially in Q4. We believe the trend to continue however we are not expecting much decline this time as the base is low.
- During auction, the company doesn't undertake returns which explain the low return ratio during the quarter at 14% vs average rate of 16-18%. We expect return ratios to come to normal levels from Q4 onwards

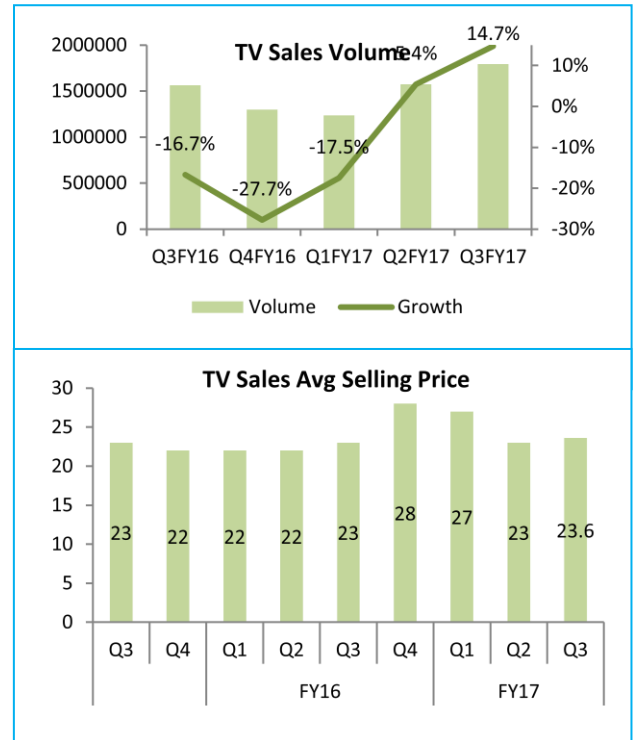
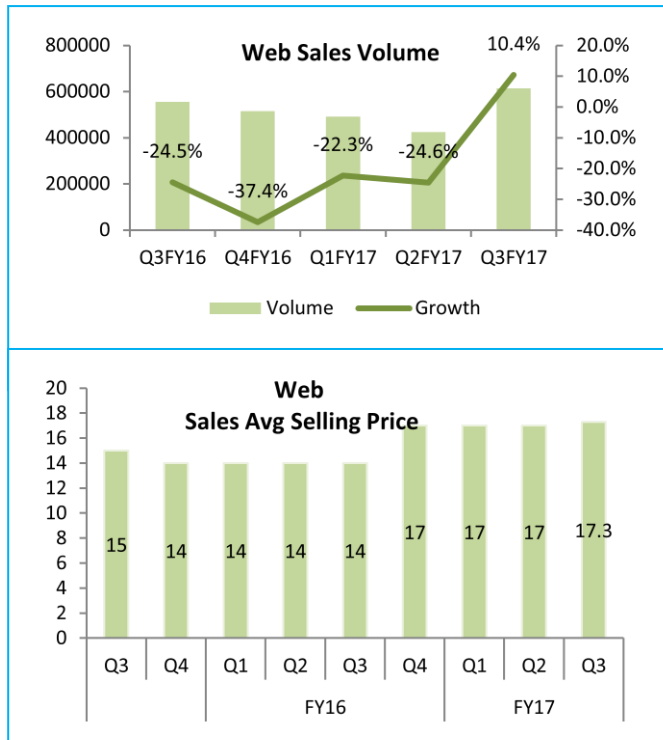
Valuations and Recommendations

We continue to like the asset light business model of VGL and we believe that company has reached an inflection point. We expect the company to report muted volumes in FY17 however show improvement from FY18. Due to fixed cost heavy business model, we expect EBITDA margins to increase higher. Our first target of Rs 353 (given in 26 Dec 16 company update) has been achieved. **VGL is trading at a PE of 12.8x on our FY19E earnings which we believe gives an attractive opportunity. We recommend HOLD on the stock with a target price of Rs 553 (15x FY19E).**

Year	Net Sales (Rs. cr)	Growth %	EBIDTA	EBIDTAM (%)	APAT	PATM (%)	EPS (Rs.)	P/E (x)	EV/Sales (x)	ROE
FY16A	1275.8	-7.2%	57.5	4.5%	39.8	3.1%	12.3	38.4	1.24	11.5%
FY17E	1432.0	12.2%	97.4	6.8%	51.8	3.6%	15.9	29.5	1.11	13.4%
FY18E	1599.3	11.7%	143.9	9.0%	89.2	5.6%	27.5	17.2	0.94	20.2%
FY19E	1820.4	13.8%	182.0	10.0%	119.9	6.6%	36.9	12.8	0.79	22.6%

Vaibhav Global Ltd. (VGL)

Segmental Breakup:



Quarterly Table

Particulars (Rs Cr)	Q3FY17	Q3FY16	yoy	Q2FY17	qoq
Total Revenues	409.6	357.0	14.7%	348.4	17.6%
Cost of materials	53.9	64.9	-17.0%	64.0	-15.8%
Purchase and Mfg	115.3	76.2	51.3%	77.2	49.4%
Employees Cost	65.0	59.5	9.1%	61.2	6.2%
Other exps	140.1	133.2	5.2%	129.9	7.8%
EBITDA	35.3	23.2	52.6%	16.2	118.5%
<i>margins</i>	<i>8.6%</i>	<i>6.5%</i>		<i>4.6%</i>	
Depreciation	7.5	6.4		7.1	
EBIT	27.8	16.8	65.9%	9.0	208.1%
Interest	2.0	2.0	0.4%	1.6	27.0%
Other Income	-0.4	0.1		1.4	
PBT	25.4	14.8	71.4%	8.9	187.0%
Tax	3.1	3.2	-2.8%	1.4	120.4%
<i>Tax rate</i>	<i>12.3%</i>	<i>21.7%</i>		<i>16.0%</i>	
EO items	0.0	0.0		0.0	
PAT reported	22.3	11.6	92.1%	7.4	199.8%
Equity Capital	32.5	32.5		32.5	
EPS	6.86	3.57	92.1%	2.24	206.9%

Vaibhav Global Ltd. (VGL)

Consolidated Financials

P&L (Rs. Cr)	FY16A	FY17E	FY18E	FY19E	Balance Sheet (Rs Cr)	FY16A	FY17E	FY18E	FY19E
Net Sales	1275.8	1432.0	1599.3	1820.4	Share Capital	32.5	32.5	32.5	32.5
% change	-7.2%	12.2%	11.7%	13.8%	Reserves & Surplus	334.9	373.4	447.4	550.2
EBITDA	57.5	97.4	143.9	182.0	Net Worth	367.4	405.9	479.9	582.7
EBITDA margin (%)	4.5%	6.8%	9.0%	10.0%	Deferred Tax Liabilitie	0.0	0.0	0.0	0.0
Depn & Amort	23.6	28.5	32.5	36.6	Other Non-Current Lia	0.0	0.0	0.0	0.0
Operating income	33.9	68.9	111.4	145.4	Total Borrowings	109.2	109.2	59.2	9.2
Interest	6.8	7.1	3.8	0.6	Trade Payables	93.4	98.6	142.2	161.8
Other Income	17.7	3.0	4.0	5.0	Prov. & other CL	47.05	54.18	62.59	72.51
PBT	44.8	64.8	111.6	149.9	Total Liabilities	619.3	670.2	746.2	828.5
Tax	5.0	13.0	22.3	30.0	Net Fixed Assets	128.6	129.6	127.1	120.5
EO	0.0	0.0	0.0	0.0	Total Investments	2.9	2.9	2.9	2.9
Adj PAT	39.8	51.8	89.2	119.9	Loans & Advances	60.4	63.9	67.5	71.3
PAT margin (%)	3.1%	3.6%	5.6%	6.6%	Inventories	297.5	338.1	377.6	429.8
Sh o/s - Diluted	3.2	3.2	3.2	3.2	Debtors	66.5	71.6	80.0	91.0
Adj EPS	12.3	15.9	27.5	36.9	Cash & Bank	56.4	57.2	84.2	106.0
EPS growth (%)	-61.4%	30.2%	72.2%	34.3%	Total Assets	619.3	670.2	746.2	828.5
Cash EPS	19.5	24.7	37.5	48.1	Cash Flow (Rs. Cr)	FY16A	FY17E	FY18E	FY19E
Quarterly (Rs Cr)	Mar.16	June.16	Sept.16	Dec.16	Operating Cash Flow				
Net Sales	350.0	316.1	348.4	409.6	Op CF before tax & WC	57.5	97.4	143.9	182.0
EBITDA	13.2	20.9	16.2	35.3	Change in WC	-54.8	-36.8	0.4	-37.5
Dep & Amorz	6.8	6.6	7.1	7.5	Tax	-5.0	-13.0	-22.3	-30.0
Operating Income	6.4	14.2	9.0	27.8	CF from Operation	-2.2	47.7	122.0	114.6
Interest	2.3	1.6	1.6	2.0	Investing Activities				
Other Inc.	0.6	-1.5	0.5	-0.9	Capex	-76.0	-28.7	-30.0	-30.0
PBT	5.4	11.6	8.7	25.4	Inv & Oth Income	17.9	3.0	4.0	5.0
Tax	-3.4	3.0	1.4	3.1	CF from Investing	-58.0	-25.7	-26.0	-25.0
EO	0.0	0.0	0.0	0.0	Financing				
PAT	8.8	8.6	7.3	22.3	Dividend Paid	0.0	-13.3	-15.2	-17.1
EPS (Rs.)	2.7	2.6	2.2	6.9	Sh Capital & Premium	0.1	0.0	0.0	0.0
Ratios	FY16A	FY17E	FY18E	FY19E	Interest Paid	-6.8	-7.1	-3.8	-0.6
EBITDA margin (%)	4.5%	6.8%	9.0%	10.0%	Loans & Others	27.1	-0.7	-50.0	-50.0
PAT margin (%)	3.1%	3.6%	5.6%	6.6%	CF from Financing	20.4	-21.1	-69.1	-67.7
PAT Growth (%)	-61.4%	30.2%	72.2%	34.3%	Net Chg. in Cash	-39.9	0.8	27.0	21.8
Price Earnings (x)	38.4	29.5	17.2	12.8	Cash at beginning	96.3	56.4	57.2	84.2
ROE (%)	11.5%	13.4%	20.2%	22.6%	Cash at end	56.4	57.2	84.2	106.0
ROCE (%)	7.7%	13.8%	21.0%	25.6%	Per Share Data	FY16A	FY17E	FY18E	FY19E
Debt/Equity Ratio (x)	0.3	0.3	0.1	0.0	Adj EPS	12.3	15.9	27.5	36.9
Price/BV (x)	4.2	3.8	3.2	2.6	BV per share	113.0	124.9	147.7	179.3
EV / Sales	1.2	1.1	0.9	0.8	Cash per share	17.4	17.6	25.9	32.6
EV / EBITDA	27.5	16.3	10.5	7.9	Dividend per share	0.0	3.5	4.0	4.5

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