

Veto Switchgears and Cables is engaged in the manufacture and sale of wires & cables and electrical accessories in India. The Company's standalone revenues have witnessed a CAGR of 28.7% over the period FY08-FY12. In the same period, PAT has registered a CAGR of 35.6%. The key return ratios are healthy as well.

At the upper end of the price band of Rs. 50, the Company is valued at 12x at its annualized 3MFY12 EPS of Rs. 4.15/-. Post Issue Market Capitalization/3MFY13 Annualized Sales stands at 1.19x which seems reasonable. With due consideration to factors like a) established brand in North West India, b) organized and comprehensive product offering, c) established reputation for quality products, d) strong network of 2400 dealers, e) attractively valued at a PE multiple of 12x as compared to Industry P/E multiple of over 20x enjoyed by Havells and V – Guard. Hence, we recommend "SUBSCRIBE" to the issue.

Financial summary (Consolidated) - Rs. mn

Y/e 31 Mar (Rs. mn)	June 12 (3months)	FY12	FY11	FY10
Total Operating Income	175	686	532	470
EBITDA Margin (%)	17.88	16.14	13.39	12.12
Reported PAT	17.3	72.2	48.6	43.5
PAT margin (%)	9.89	10.5	9.14	9.26
Equity Capital	116.6	53.82	53.32	49.99
Networth	326.72	270.93	198.21	139.65
Total Debt	204.84	193.96	190.58	230.51
Debt/Equity (x)	0.63	0.72	0.96	1.65
RoNW (%)	-	26.6	24.5	31.1
Adjusted EPS on Post IPO equity	4.15**	4.33	2.92	2.61
P/E at IPO Fixed Price	12	11.5	17	19

Source: RHP, Ajcon Research * annualized EPS,

Note: EPS calculated on Post IPO Equity

Listing	NSE – SME	
IPO Issue date	December 03 – 05, 2012	
IPO Issue size	Rs. 250 mn	
FV	Rs. 10	
Fixed Price Issue	Rs. 48-50 per share	
Fresh Issue	5 mn equity shares	
Market Lot	3,000 shares	
Equity shares post issue	16.66 mn equity shares	
IPO Grading	CRISIL SME Grade: 4/5 indicating superior fundamentals	
Promoters	Veto Electropowers (India) Private Ltd. Mr. Vishnu Kumar Gurnani - Managing Director Mr. Mohan Das Gurnani – Non – Executive Chairman Mr. Narayan Das Gurnani	
Post issue market capitalization	Rs. 833 mn	
Book Running Lead Manager	Keynote Corporate Services Ltd. Indian Overseas Bank	
Registrar to the issue	Bigshare Services Private Ltd.	
Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters	100	70
Public	-	30
Total	100	100

Background of the Company

The Company was incorporated as a private limited company on June 20, 2007 by conversion of partnership firm "M/s Veto Switchgears and Cables" under part IX of Companies Act, 1956. It is a part of Jaipur, Rajasthan based Gurnani group which has interests in wires & cables, electrical accessories, real estate and hotels. The Company is promoted by M/s. Veto Electropowers (India) Private Limited, which is a subsidiary of Gurnani Holding Private Limited, which in turn is owned by Mr. Vishnu Kumar Gurnani, Mr. Mohan Das Gurnani and Mr. Narayan Das Gurnani. Pursuant to the conversion from private limited company to public limited company, the name was changed to "Veto Switchgears and Cables Limited" w.e.f. August 3, 2012 by receiving fresh

certificate of incorporation from the Registrar of Companies, Maharashtra, Mumbai. The corporate office of the Company is located in Jaipur, Rajasthan.

About the Business

Veto Switchgears and Cables Ltd. Is an ISO 9001:2008 certified company, engaged in manufacture and sale of wires & cables and electrical accessories in India. The Company's product portfolio ranges from industrial cable, stand cables to telephone & co-axial wires, from general switches to modular switches, from ceiling fans to rechargeable fans, compact fluorescent lamps and other electrical accessories. The products are manufactured at its state-of-art manufacturing unit located in Haridwar, Uttarakhand. The Company supply its products under the brands "VETO" and "VIMAL POWER" through its large network of dealers to its customers in India as well select customers abroad. Over the years, the Company has strengthened its manufacturing capacity by undertaking expansion from time – to – time. Over the years, the Company has strengthened its manufacturing capacity by undertaking expansion from time to time. Most of the products are used in households, offices, factories etc. i.e B2C (Business to Consumer) and sold over the counter by its network of dealers. The demand for its products has surged due to the growing demand for new homes and offices in India. This further supported by the growth in various industries across. Thus, in order to improve its market share, it needs to increase its presence and market its products in new locations. Further, the demand for its products from the overseas markets has been positive and thus it proposes to capitalize the same by increasing its existing capacities.

Plant location and installed capacity

The present facility of the Company is located at Plot no. 65-67 and 74-77, Sector 5, IIE, Sidcul, Haridwar – 249403, Uttarakhand. All of its products (except for CFL and fans) are being manufactured and assembled at this facility. The existing installed capacity of the facility for wires & cables is 1,408,000 bundles p.a. and for electrical accessories is 38,000,000 pieces p.a.

Product Profile

The Company manufactures various products under various categories namely:

Electrical Accessories	Carino Modular Switches, Power Modular Switches, Puf General Switches, FM Mini Modular Switches, Bells & Extension Cord, MCB/Isolater/Distribution Boxes, Compact Fluorescent Lamp, Ceiling Fan, Exhaust Fan, Table Fan, Wall Fan, Stand Fan, Rechargeable Fan and other electrical accessories.
Wires & Cables	Multi Stand Cables, L.T. Industrial Cables, Copper Flexible Cables, Telephone & Co – Axial Wires.

Objects of the issue

Particulars	Amount to be utilized (Rs. mn)
Modernisation of existing facility at Haridwar, Uttarakhand	47
Incremental long – term working capital requirement	158
Enhancement of Company's brand through advertising and other brand building activities	20
General Corporate Purposes	-
Issue Expenses	-
Total	

Source: RHP

Means of Finance

Particulars	Amount to be utilized (Rs. mn)
Proceeds of the Issue	250
Internal accruals	-
Total	250

Source: RHP

Strengths

Veto Switchgears and Cables Ltd (Veto) manufactures and sells wires, cables and electrical accessories. The company has a diversified product basket, which includes around 20 product categories. It sells electrical accessories under the 'Veto' brand, and wires and cables under the 'Vimal Power' brand. In FY12, wires and cables contributed 54% to Veto's revenues and the rest was contributed by electrical accessories.

Veto has an extensive presence in Rajasthan and derives 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. 'Veto' and 'Vimal Power' are well known brands in the north western region of India. The company leverages its dealer network by introducing new products or variants of existing products.

Veto stands to benefit from the healthy growth expected in its products due to a) rise in disposable per capita income of Indians leading to growth in real estate and construction sectors, b) increasing preference of Indian consumers for branded products, especially in the electrical accessories and consumer appliances segment, and c) government policies focusing towards improvement of electricity supply, especially in rural areas.

Veto's promoters have a long standing presence in PVC (polyvinyl chloride) wires and cables business which has enabled them to expand the electrical accessories business and increase the dealer network in the domestic market.

Key challenges

Veto's scale of operations is small and its product offerings are limited compared to big players in the industry viz., Havells, KEI Industries, Anchor, and others, which limits its bargaining power with dealers/distributors.

Veto's operations are working capital intensive as reflected in its working capital cycle of 200 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 suppliers which include suppliers of copper and PVC/PVC compounds.

The company's plan to establish itself in other geographies is likely to take some time because it will have to invest in advertising and brand building.

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Veto has strong inter-linkages with its group entities and in the past has extended and received interest free loans from promoters and other group companies. However, Veto's reliance on related parties for debt funds has reduced over a period of time, as the company has substituted these loans with bank loans.

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.

For research related queries contact Mr. Akash Jain, VP - Research at research@ajcon.net

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