

HOLD

TP: Rs 290 | ▼ 6%

V-GUARD INDUSTRIES

Consumer Durables

10 August 2023

Strong quarter all through

- All-round growth in Q1 led by non-South India markets that grew at 17% YoY
- Margin outlook improves with gross margin up 250bps YoY; integration of recent acquisitions progressing well
- TP revised to Rs 290 (vs. Rs 270) on rollover – maintain HOLD

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Robust quarter: VGRD posted strong 19% YoY topline growth (13% ex-Sunflame acquisition) to Rs 12.1bn accompanied by improved margins in Q1FY24. Gross margin expanded 250bps YoY to 32.5% with a 60bps rise in EBITDA margin to 8.6% owing to softer commodity prices and cost optimisation, partly offset by higher employee cost. All business categories did well, with durables and electricals logging ~10% YoY growth each and electronics rising ~20%. The durables business margin has returned to positive territory, and we expect the company to improve its margin profile in the coming quarters.

High contribution from non-South markets: In Q1, VGRD's revenue from the South India market grew 10% YoY while the non-south markets increased 17%, which could have been even better but for unseasonal rains in the northern region. Markets outside the south contributed close to 50% of revenue for the quarter.

Margins guided to improve further: Softer commodity prices aided gross margin expansion in Q1, and management expects further gains ahead buoyed by upcoming festive season demand in Q2 and Q3. Lower raw material cost is also helping with inventory and working capital management, though the benefits will be partially offset by higher A&P spends going forward.

Recent acquisitions progressing well: New acquisitions Simon Electric and Sunflame are progressing well. The integration of Simon is ongoing, whereas Sunflame – which the company plans to keep separate as of now – has a management team in place following the completion of key personnel hiring. We expect healthy synergies from these acquisitions going forward.

Maintain HOLD: Although VGRD has guided for stronger margins, the company is still facing headwinds in the form of inflation and rising competition in the sector. We thus retain HOLD and continue to value the stock at a 30x P/E multiple, a 15% discount to the 3Y average, while rolling valuations over to Jun'25E for a revised TP of Rs 290 (vs. Rs 270). On the whole, we prefer HAVL in the consumer durables space.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VGRD IN/Rs 308
Market cap	US\$ 1.6bn
Free float	44%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 335/Rs 225
Promoter/FPI/DII	56%/13%/19%

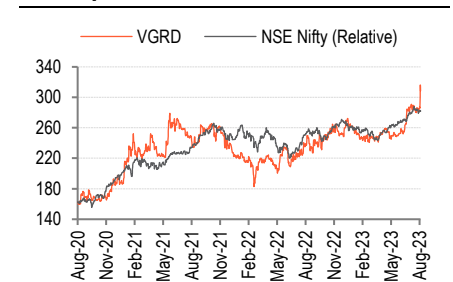
Source: NSE | Price as of 10 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	41,260	51,095	57,608
EBITDA (Rs mn)	3,199	5,507	6,145
Adj. net profit (Rs mn)	1,891	3,458	3,849
Adj. EPS (Rs)	4.4	8.0	8.9
Consensus EPS (Rs)	4.4	7.6	8.4
Adj. ROAE (%)	12.5	19.8	18.8
Adj. P/E (x)	70.5	38.5	34.6
EV/EBITDA (x)	41.7	24.2	21.7
Adj. EPS growth (%)	(16.9)	82.9	11.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	12,148	10,183	19.3	11,401	6.5
EBITDA	1,048	820	27.7	987	6.2
EBITDA Margin (%)	8.6	8.1	60bps	8.7	(3bps)
Depreciation	198	137		191	
Interest	109	18		102	
Other Income	118	51		26	
PBT	859	717	19.9	721	19.2
Tax	217	183		194	
Adjusted PAT	642	534	20.3	527	21.8
Exceptional item	-	-		-	
Reported PAT	642	533	20.5	527	21.8
Adj. PAT Margin (%)	5.3	5.2	5bps	4.6	70bps
EPS (Rs)	1.5	1.2	20.2	1.2	21.8

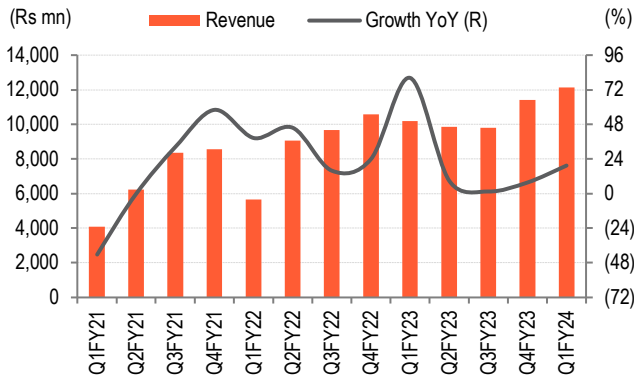
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenues													
Consumer Durables	855	1,634	2,641	2,237	1,497	2,794	3,384	2,959	2,991	3,372	3,537	2,862	3,312
Growth YoY (%)	(44.3)	(6.6)	30.8	55.2	75.1	71.0	28.1	32.3	99.7	20.7	4.5	(3.3)	10.7
Electricals	1,848	2,886	3,635	3,888	2,565	4,188	4,292	5,152	4,159	4,216	4,358	5,253	4,567
Growth YoY (%)	(31.7)	2.8	31.6	57.6	38.8	45.1	18.1	32.5	62.1	0.7	1.6	2.0	9.8
Electronics	1,377	1,710	2,074	2,428	1,590	2,092	1,999	2,471	3,034	2,274	1,914	2,717	3,637
Growth YoY (%)	(51.3)	2.0	34.9	61.5	15.5	22.3	(3.6)	1.8	90.8	8.7	(4.3)	10.0	19.9
Sunflame												569	632
EBIT													
Consumer Durables	(87)	136	264	89	(59)	85	96	50	38	97	(45)	11)	9
Margin (%)	(10.2)	8.3	10.0	4.0	(3.9)	3.0	2.8	1.7	1.3	2.9	(1.3)	(0.4)	0.3
Electricals	59	287	331	427	254	421	355	555	283	228	397	478	290
Margin (%)	3.2	9.9	9.1	11.0	9.9	10.1	8.3	10.8	6.8	5.4	9.1	9.1	6.3
Electronics	93	306	512	531	207	392	338	431	429	333	222	325	585
Margin (%)	6.8	17.9	24.7	21.9	13.0	18.7	16.9	17.4	14.1	14.6	11.6	12.0	16.1
Sunflame												80	58
Margin (%)												14.1	9.2

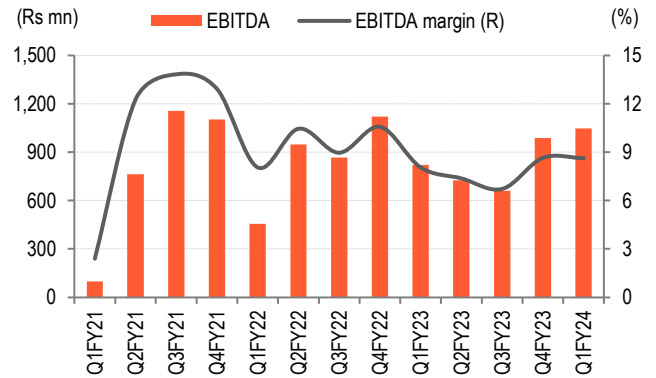
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



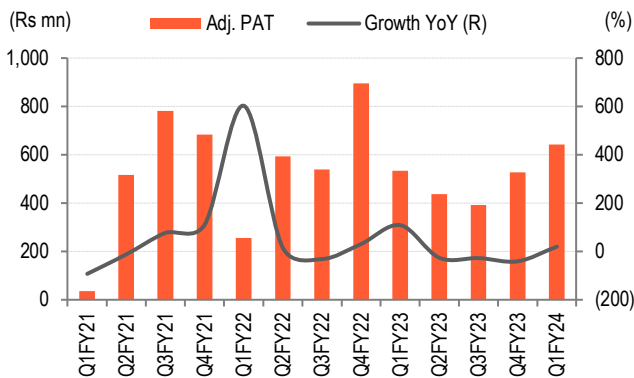
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



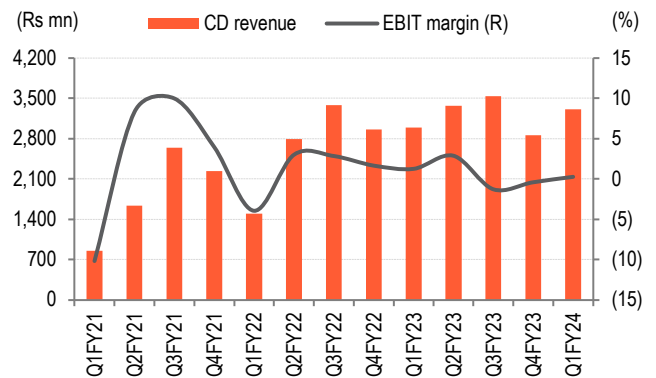
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



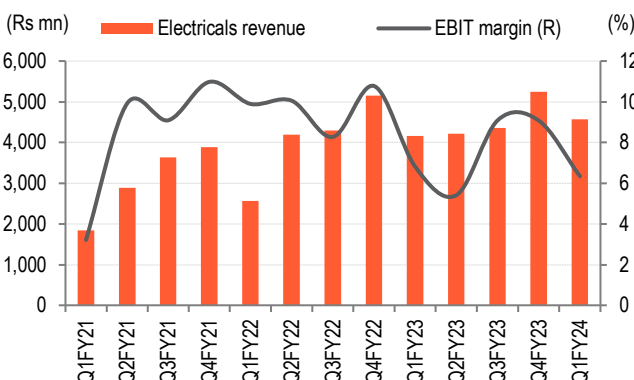
Source: Company, BOBCAPS Research

Fig 6 – Consumer durables performance



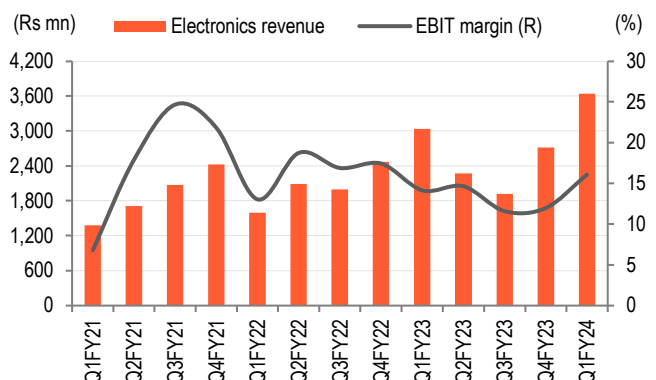
Source: Company, BOBCAPS Research

Fig 7 – Electricals performance



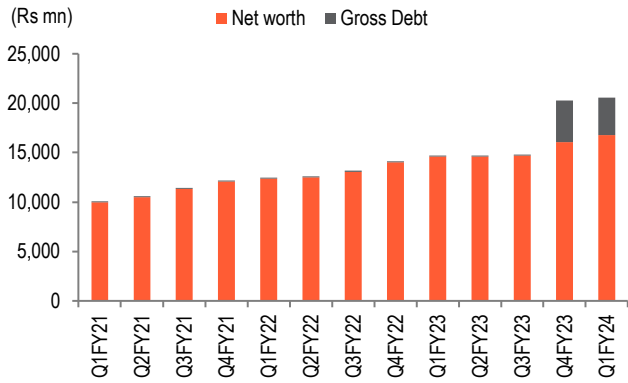
Source: Company, BOBCAPS Research

Fig 8 – Electronics performance



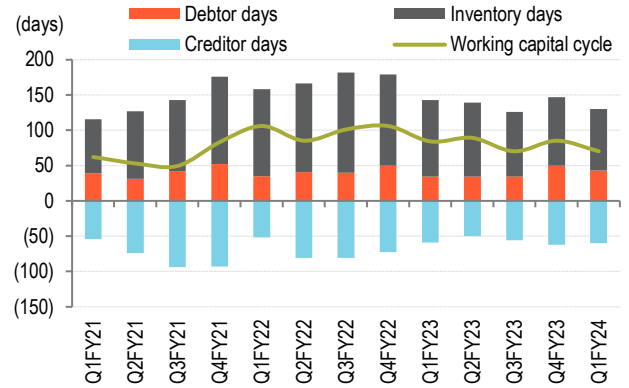
Source: Company, BOBCAPS Research

Fig 9 – Capital levels



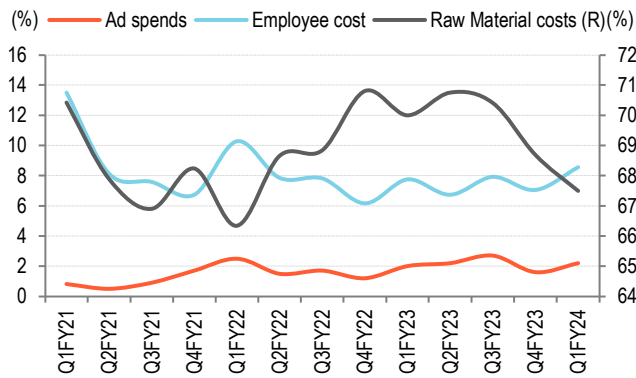
Source: Company, BOBCAPS Research

Fig 10 – Working capital cycle



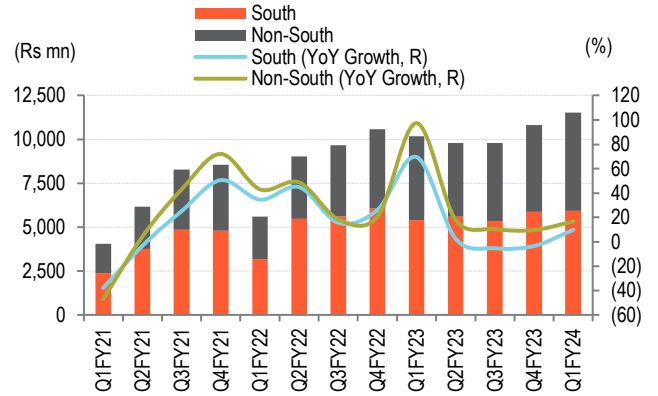
Source: Company, BOBCAPS Research

Fig 11 – Cost profile



Source: Company, BOBCAPS Research

Fig 12 – Geographical revenue breakup



Source: Company, BOBCAPS Research

Earnings call highlights

- **Margins:** VGRD is bullish on margins and expects gross margin to improve further from the Q1FY24 level of 32.5% on easing commodity prices. The benefit is unlikely to full reflect in EBITDA margin as A&P spends are guided to rise by 100bps from current levels of 2.2% of revenue.
- **Volumes:** Management indicated that not much pricing action was taken during the quarter on a QoQ basis, implying 6-7% QoQ consolidated volume growth (revenue grew 6.5% sequentially).
- **Regional outlook:** Per management, the addressable market for its products is split 38% and 62% between the southern and non-southern regions respectively vs. VGRD's geographical mix of 48% and 52%. During Q1, the company saw healthy growth in new categories of switches, switchgears, and air coolers in the non-south region, and expects a steady focus on these markets to reflect in a ~2% increase in their revenue contribution per year for the next five years.
- **E-commerce:** E-commerce grew 20% YoY for the quarter, a relatively muted performance compared to VGRD's past high growth. For Sunflame, 7-8% of revenue was contributed by the e-commerce channel.
- **Manufacturing capabilities:** The company currently manufactures 60% of the products it sells as compared to ~35% a few years ago. It expects to raise this proportion to 75% in the coming years as new plants are commissioned. Management also expects to incur capex of Rs 1bn each during FY24 and FY25.
- **Extraordinary income:** Other income stood at Rs 118mn for Q1 which includes a Rs 70mn one-time gain on account of reassessment of the investment in battery startup Gegadyne Energy. Excluding this, other income was at Rs 48mn as compared to Rs 51mn in Q1FY23.
- **Financials:** Net debt stood at Rs 2bn and cash balance at Rs 932mn as of Jun'23. VGRD has paid off the working capital debt of Rs 1bn undertaken during the Sunflame acquisition and expects to pay off its net debt in the next 18-24 months, with payments beginning in Apr'24. Return on capital was healthy with 11.9% and 12.6% ROE and ROCE respectively for the quarter (vs. 11.8% and 12% in Q4FY23).

Sunflame

- A weak demand environment for kitchen appliances in recent quarters has impacted Sunflame. Management was hopeful of recovery in Q1 but is now looking at improvement in H2FY24.
- The recent flattish performance in kitchen appliances suggests revenue of Rs 3bn-3.5bn for FY24, as per management.
- Management expects an 11-12% EBIT margin for Sunflame in FY24 (9.3% in Q1) given lower cost of raw materials and other cost efficiencies.

Electricals

- Cables posted 13% YoY value growth for the quarter, entirely attributed to volume growth as no pricing action was taken.
- Capacity utilisation stood at 65-70%, and management expects to continue at this level.
- The electricals segment posted an EBIT margin of 6.3%, lower than last year's 6.8% as marketing activities had an adverse impact of ~180bps.

Consumer durables

- **Fans:** North India is a big market for fans but saw subdued demand in Q1 due to the unseasonal rains. Consequently, price hikes taken by the company in April were reversed by way of discounts during May and June, reflecting in lower topline growth and margins (0.3% for the segment vs. 1.3% margins a year ago).
- **Water heaters:** This product category faced the problem of high-cost inventory, which the company expects will be resolved by October this year. Tepid rural demand also contributed to low-single-digit growth in water heaters, as compared to management's target of double-digit growth. The company expects to post a better EBIT margin in the range of 4-5% from Q3.

Electronics

- VGRD has posted an 8-9% CAGR in the segment over FY19-FY23 and expects to grow even faster during FY24.
- Air conditioner stabilisers, batteries and inverters all saw healthy growth during the quarter.

Valuation methodology

VGRD is a prominent player in South India and fast expanding its reach beyond its traditional market. We expect fans and water heaters to accelerate growth in the company's consumer durables segment, in turn offsetting potentially lower revenue from kitchen appliances (Sunflame), as guided by management. Thus, our estimates remain largely unchanged.

Although VGRD has guided for stronger margins, the company is still facing headwinds in the form of inflation and rising competition in the sector. We thus retain HOLD and continue to value the stock at a 30x P/E multiple, a 15% discount to the three-year average, while rolling valuations over to Jun'25E for a revised TP of Rs 290 (vs. Rs 270). On the whole, we prefer HAVL in the consumer durables space.

Fig 13 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	51,095	57,608	51,003	57,485	0.2	0.2
EBITDA	5,507	6,145	5,491	6,124	0.3	0.3
PAT	3,458	3,849	3,447	3,834	0.3	0.4
EPS (Rs)	8.0	8.9	8.0	8.9	0.3	0.4
EBITDA Margin (%)	10.8	10.7	10.8	10.7	0bps	0bps

Source: Company, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates are:

- **Upside:** Above-expected market share gains in non-core northern regions
- **Downside:** Intensifying competition in the kitchen appliances segment, resulting in fewer synergistic benefits from the Sunflame acquisition

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,487	2,500	HOLD
Blue Star	BLSTR IN	1.8	750	880	BUY
Crompton Greaves	CROMPTON IN	2.4	304	370	BUY
Dixon Technologies	DIXON IN	3.5	4,801	4,300	HOLD
Havells India	HAVL IN	9.8	1,291	1,600	BUY
KEI Industries	KEII IN	2.6	2,366	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	239	250	HOLD
Polycab India	POLYCAB IN	8.3	4,585	5,000	BUY
Syrma SGS	SYRMA IN	1.0	475	600	BUY
V-Guard Industries	VGRD IN	1.6	308	290	HOLD
Voltas	VOLT IN	3.4	837	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 10 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	27,212	35,002	41,260	51,095	57,608
EBITDA	3,121	3,402	3,199	5,507	6,145
Depreciation	386	491	644	799	966
EBIT	2,735	2,911	2,555	4,708	5,179
Net interest inc./(exp.)	(61)	(79)	(162)	(268)	(238)
Other inc./(exp.)	207	108	164	184	206
Exceptional items	0	0	0	0	0
EBT	2,881	2,940	2,557	4,624	5,147
Income taxes	862	655	667	1,165	1,297
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,008	2,277	1,891	3,458	3,849
Adjustments	0	0	0	0	0
Adjusted net profit	2,008	2,277	1,891	3,458	3,849

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	4,747	4,880	4,885	7,699	8,681
Other current liabilities	1,050	1,166	1,814	2,247	2,533
Provisions	0	0	0	0	0
Debt funds	130	118	4,196	2,679	2,379
Other liabilities	710	732	2,097	2,597	2,928
Equity capital	430	432	432	432	432
Reserves & surplus	11,683	13,638	15,644	18,454	21,569
Shareholders' fund	12,113	14,070	16,076	18,886	22,001
Total liab. and equities	18,750	20,966	29,069	34,108	38,522
Cash and cash eq.	2,812	613	670	(1,613)	(667)
Accounts receivables	3,881	4,841	5,687	7,279	8,207
Inventories	6,315	8,596	7,674	12,599	14,205
Other current assets	1,003	1,152	1,021	1,265	1,426
Investments	0	0	0	0	0
Net fixed assets	3,913	4,842	5,683	5,884	6,418
CWIP	185	92	237	293	331
Intangible assets	129	200	6,822	6,822	6,822
Deferred tax assets, net	0	0	0	0	0
Other assets	513	631	1,274	1,578	1,779
Total assets	18,750	20,966	29,069	34,108	38,522

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	3,695	1,390	4,238	743	3,388
Capital expenditures	0	0	(1,012)	(1,000)	(1,500)
Change in investments	26	0	(6,615)	0	0
Other investing cash flows	383	(1,198)	(85)	140	92
Cash flow from investing	409	(1,198)	(7,712)	(860)	(1,408)
Equities issued/Others	0	0	1	0	0
Debt raised/repaid	2	(12)	1,349	(1,517)	(300)
Interest expenses	0	0	0	0	0
Dividends paid	(60)	(603)	1,912	(648)	(735)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(58)	(615)	3,262	(2,165)	(1,035)
Chg in cash & cash eq.	4,047	(423)	(212)	(2,283)	946
Closing cash & cash eq.	2,812	613	670	(1,613)	(667)

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	4.6	5.3	4.4	8.0	8.9
Adjusted EPS	4.6	5.3	4.4	8.0	8.9
Dividend per share	1.2	1.3	1.3	1.5	1.7
Book value per share	28.0	32.6	37.2	43.7	50.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	4.9	3.8	3.2	2.6	2.3
EV/EBITDA	42.7	39.2	41.7	24.2	21.7
Adjusted P/E	66.4	58.5	70.5	38.5	34.6
P/BV	11.0	9.5	8.3	7.1	6.1

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	69.7	77.5	73.9	74.8	74.8
Interest burden (PBT/EBIT)	105.3	101.0	100.1	98.2	99.4
EBIT margin (EBIT/Revenue)	10.0	8.3	6.2	9.2	9.0
Asset turnover (Rev./Avg TA)	7.0	7.2	7.3	8.7	9.0
Leverage (Avg TA/Avg Equity)	0.4	0.4	0.4	0.3	0.3
Adjusted ROAE	18.2	17.4	12.5	19.8	18.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	8.7	28.6	17.9	23.8	12.7
EBITDA	21.0	9.0	(6.0)	72.1	11.6
Adjusted EPS	7.3	13.4	(16.9)	82.9	11.3
Profitability & Return ratios (%)					
EBITDA margin	11.5	9.7	7.8	10.8	10.7
EBIT margin	10.0	8.3	6.2	9.2	9.0
Adjusted profit margin	7.4	6.5	4.6	6.8	6.7
Adjusted ROAE	18.2	17.4	12.5	19.8	18.8
ROCE	18.3	17.6	11.7	17.5	17.5
Working capital days (days)					
Receivables	48	45	47	52	52
Inventory	74	78	72	90	90
Payables	52	50	43	55	55
Ratios (x)					
Gross asset turnover	6.5	6.1	5.8	6.1	6.0
Current ratio	2.4	2.5	1.8	1.9	2.0
Net interest coverage ratio	44.8	36.9	15.8	17.6	21.8
Adjusted debt/equity	0.0	0.0	0.3	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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SEBI Research Analyst Registration No: **INH0000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

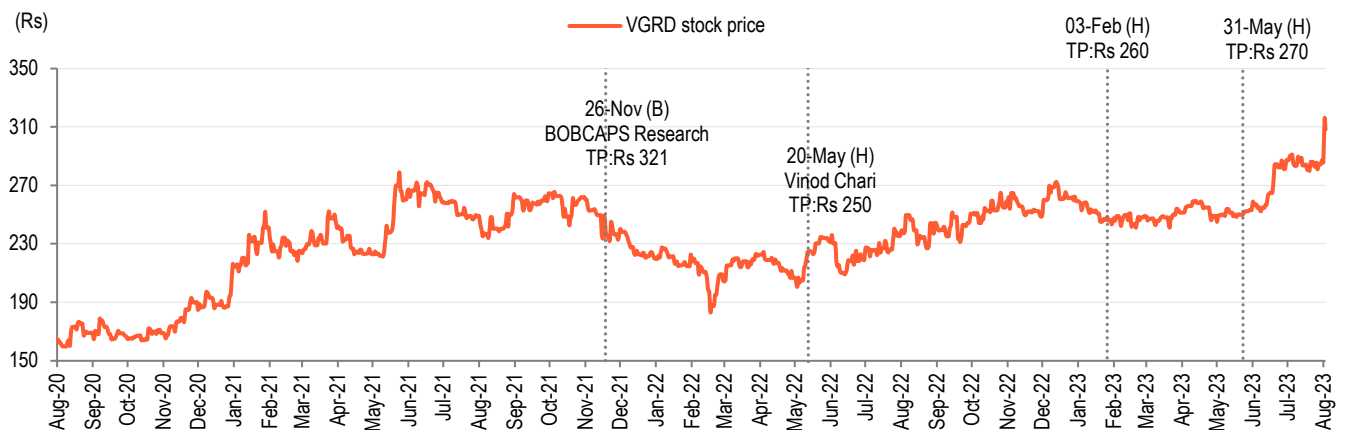
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): V-GUARD INDUSTRIES (VGRD IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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