

HOLD
 TP: Rs 440 | ▲ 4%

V-GUARD INDUSTRIES

Consumer Durables

30 October 2024

Broad-based growth drives topline

- **Topline surged 14% YoY, driven by steady gains across Electronics, Electricals, and ECD segments, while Sunflame sales held steady**
- **Electricals margins fell on raw material volatility, while Sunflame growth was flat amid weak sentiment**
- **We pare FY25/FY26/FY27 EPS estimates by 3% each and continue to value the stock at 37x P/E. We maintain TP of Rs 440 and HOLD rating**

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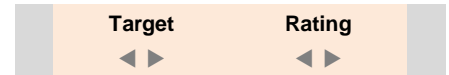
Broad-based growth: Consolidated revenue grew 14% YoY to Rs 12.9bn, in line with expectations and driven by strong performance across Electronics, Electricals, and ECD segments, though Sunflame sales remained flat. The South region (excluding Sunflame) contributed 56% of total sales at Rs 6.8bn, up 14% YoY, while Non-South India sales rose by 17% YoY to Rs 5.5bn, making up 45% of total sales. Gross margin expanded 210bps YoY to 35.8%, supported by cost controls, increased in-house manufacturing, and premiumisation. EBITDA grew 19% YoY to Rs 1.1bn with an EBITDAM of 8.5%, slightly under expectations due to copper price volatility. PAT increased 8% YoY to Rs 634mn.

Strong performance across segments with mixed margin impact: Electronics segment sales surged 19% YoY to Rs 3bn, with a notable EBIT margin increase of 270bps YoY to 19.6%. Electricals saw healthy 16% YoY growth to Rs 5.4bn, though its EBIT margin dipped 140bps to 9.1% due to copper price volatility affecting wire costs. Consumer Durables achieved 11% YoY sales growth, with an EBIT margin boost of 210bps to 4.1%. In contrast, Sunflame’s sales remained flat at Rs 611mn, and its EBIT margin fell by 360bps to 1.4%, reflecting some challenges in margin retention.

Regional revenue surge: VGRD posted strong regional growth, with non-South India revenue climbing 17% YoY, showcasing robust market expansion. The South region followed closely, achieving 14% YoY growth. For the second consecutive quarter, non-South markets contributed over 50% of total revenue, emphasising the growing importance of these regions in VGRD’s overall revenue mix.

Valuation outlook: To incorporate Q2 we pare our FY25/FY26/FY27 EPS estimates by 3% each as we expect ongoing challenges like increased competition and pricing issues to continue. We roll forward valuations to Sep’26E, and maintain TP at Rs 440. We continue to value the stock at 37x P/E – in line with its five-year average. Maintain HOLD.

Key changes



Ticker/Price	VGRD IN/Rs 423
Market cap	US\$ 2.2bn
Free float	44%
3M ADV	US\$ 3.9mn
52wk high/low	Rs 577/Rs 283
Promoter/FPI/DII	56%/13%/19%

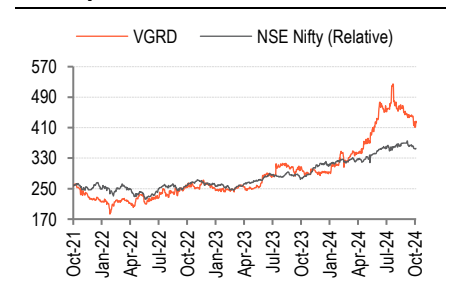
Source: NSE | Price as of 30 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	48,567	55,893	65,108
EBITDA (Rs mn)	4,267	5,594	6,735
Adj. net profit (Rs mn)	2,576	3,674	4,693
Adj. EPS (Rs)	6.0	8.5	10.9
Consensus EPS (Rs)	6.0	9.0	11.0
Adj. ROAE (%)	15.1	18.7	20.4
Adj. P/E (x)	71.0	49.8	39.0
EV/EBITDA (x)	42.8	32.7	27.1
Adj. EPS growth (%)	36.2	42.6	27.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	Q2FY25E	Variance (%)
Revenue	12,940	11,338	14.1	14,771	(12.4)	27,711	23,485	18.0	12,698	1.9
EBITDA	1,103	925	19.2	1,558	(29.2)	2,660	1,972	34.9	1,151	(4.2)
EBITDA Margin (%)	8.5	8.2	40bps	10.5	(200bps)	9.6	8.4	120bps	9.1	(50bps)
Depreciation	221	198		217		438	396			
Interest	76	93		86		162	202			
Other Income	41	142		69		110	260			
PBT	846	775	9.1	1,324	(36.1)	2,170	1,634	32.8		
Tax	212	186		334		546	403			
Adjusted PAT	634	590	7.5	990	(36.0)	1,624	1,232	31.8	707	(10.3)
Exceptional item	-	-		-		-	-			
Reported PAT	634	590	7.5	990	(36.0)	1,624	1,232	31.8		
Adj. PAT Margin (%)	4.9	5.2	(30bps)	6.7	(180bps)	5.9	5.2	60bps		
EPS (Rs)	1.5	1.4	7.5	2.3	(36.0)	3.8	2.9	31.8		

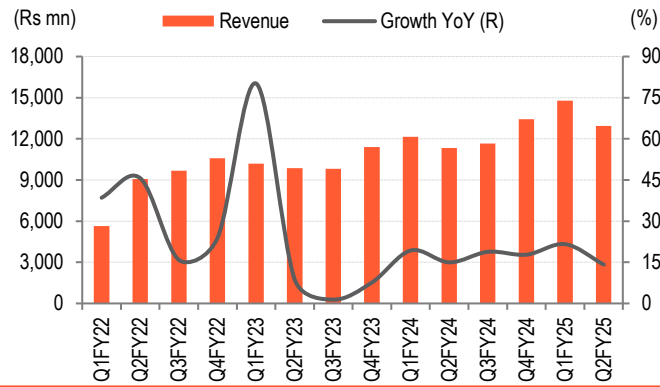
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	3-Yr CAGR
Revenues														
Consumer Durables	2,794	3,384	2,959	2,991	3,372	3,537	2,862	3,312	3,547	3,928	3,657	4,176	3,923	12.0
Growth YoY (%)	71.0	28.1	32.3	99.7	20.7	4.5	(3.3)	10.7	5.2	11.1	27.8	26.1	10.6	-
Electricals	4,188	4,292	5,152	4,159	4,216	4,358	5,253	4,567	4,623	4,727	5,814	4,877	5,376	8.7
Growth YoY (%)	45.1	18.1	32.5	62.1	0.7	1.6	2.0	9.8	9.6	8.5	10.7	6.8	16.3	-
Electronics	2,092	1,999	2,471	3,034	2,274	1,914	2,717	3,637	2,551	2,236	3,228	5,131	3,030	13.1
Growth YoY (%)	22.3	(3.6)	1.8	90.8	8.7	(4.3)	10.0	19.9	12.2	16.9	18.8	41.1	18.8	-
Sunflame							569	632	617	763	730	587	611	
EBIT														
Consumer Durables	85	96	50	38	97	(45)	(11)	9	(1)	117	129	217	161	23.9
Margin (%)	3.0	2.8	1.7	1.3	2.9	(1.3)	(0.4)	0.3	(0.0)	3.0	3.5	5.2	4.1	
Electricals	421	355	555	283	228	397	478	290	383	429	724	492	491	5.3
Margin (%)	10.1	8.3	10.8	6.8	5.4	9.1	9.1	6.3	8.3	9.1	12.5	10.1	9.1	
Electronics	392	338	431	429	333	222	325	585	370	287	483	1,035	595	14.9
Margin (%)	18.7	16.9	17.4	14.1	14.6	11.6	12.0	16.1	14.5	12.9	15.0	20.2	19.6	
Sunflame							80	58	37	82	73	27	9	
Margin (%)							14.1	9.2	6.0	10.8	10.0	4.7	1.4	

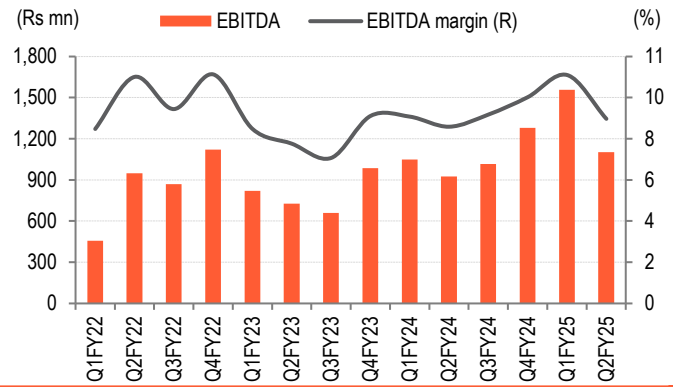
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



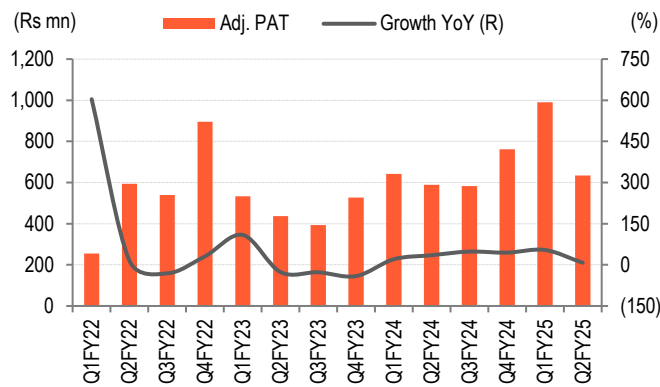
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



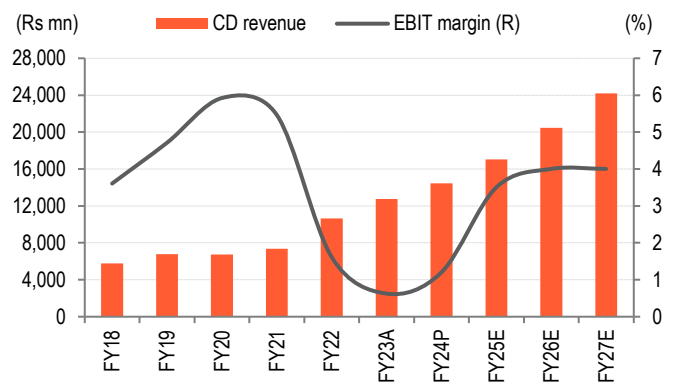
Source: Company, BOBCAPS Research

Fig 5 – PAT growth trend



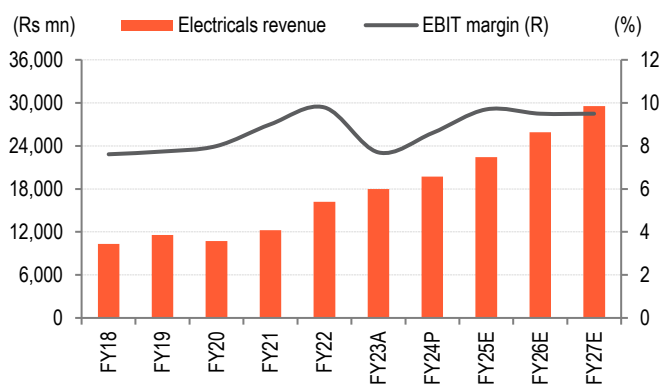
Source: Company, BOBCAPS Research

Fig 6 – Consumer Durables performance



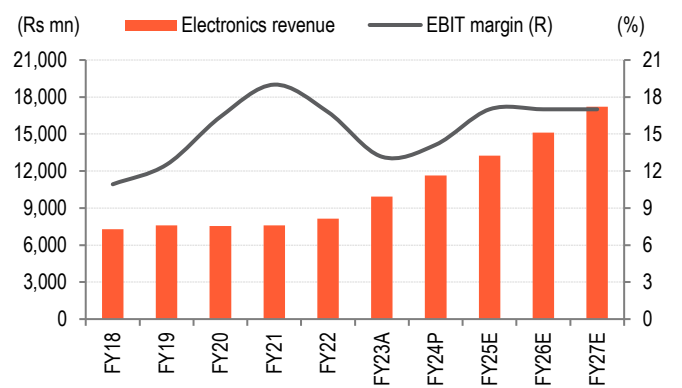
Source: Company, BOBCAPS Research

Fig 7 – Electricals business performance



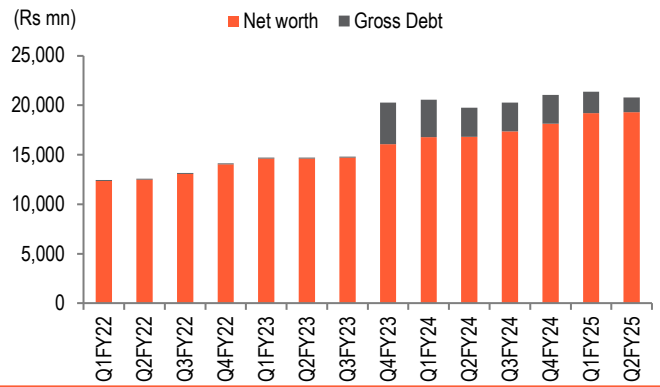
Source: Company, BOBCAPS Research

Fig 8 – Electronics business performance



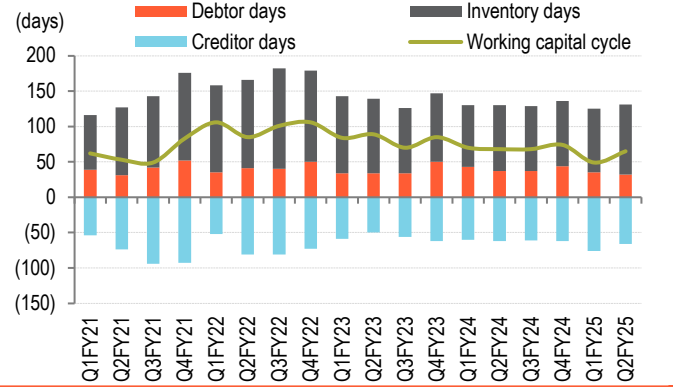
Source: Company, BOBCAPS Research

Fig 9 – Capital levels



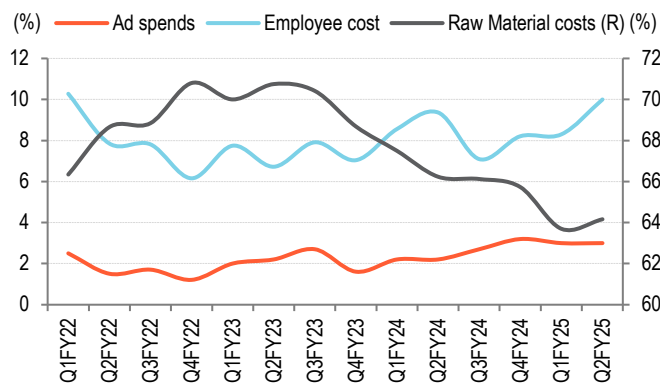
Source: Company, BOBCAPS Research

Fig 10 – Working capital cycle



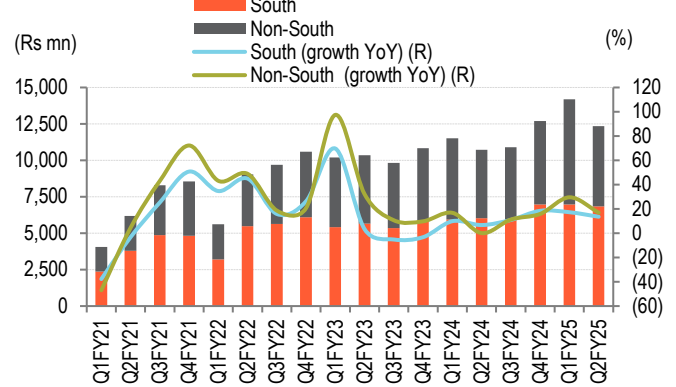
Source: Company, BOBCAPS Research

Fig 11 – Cost profile



Source: Company, BOBCAPS Research

Fig 12 – Geographical revenue breakdown for India



Source: Company, BOBCAPS Research

Earnings call highlights

Consumer Durables and Sunflame

- Kitchen appliances show modest growth:** The kitchen appliances category, spanning both the VGRD and SEPL brands, reported slower growth relative to other segments. VGRD remains focused on integrating SEPL, successfully inducting a new management team within the last four to five months. By FY25, VGRD expects to repay the SEPL acquisition loan. SEPL’s gross margin remains intact, with an annual revenue outlook of Rs 2.4bn, while VGRD’s kitchen appliances are projected at Rs 2bn-2.2bn for FY25.
- EBITDA margin challenges at SEPL:** SEPL’s EBITDA margin dipped, driven by lower sales, consultancy costs related to financial integration (anticipated to affect results for another one to two quarters), and increased manpower. Despite these hurdles, SEPL’s transition to VGRD’s e-commerce system – shifting from an intermediary sales model to VGRD’s own online channel – has been completed, with encouraging results in general trade, though CSD channels face challenges.

- **Expanding general trade amid channel adjustments:** General trade outperformed expectations and is projected to continue on an upward trajectory. Actions taken to improve performance in other sales channels are expected to show positive results soon. VGRD aims to strengthen general trade growth while scaling SEPL's business for sustainable performance across markets.
- **Progress in ECD margin recovery:** In the Electronic Consumer Durables (ECD) segment, margins have yet to fully recover to pre-COVID levels due to challenges in passing on price increases. VGRD remains optimistic about a healthy scale-up in ECD, expecting significant EBITDA margin expansion as demand stabilises and input costs are managed.
- **Muted water heater growth in extended summer:** Water heater sales saw muted growth as an extended summer reduced demand, compounded by regional pricing pressures, especially in the southern markets. While VGRD faces challenges in the South, it continues to work on strategies to bolster this segment amid fluctuating seasonal and market conditions.

Electricals and Electronics

- **Robust growth across electricals:** The electricals segment, driven by wires, pumps, switches, and switchgears, achieved substantial growth this quarter. Wires recorded impressive double-digit sales growth, although EBIT margins felt a 60bps impact due to fluctuations in copper prices. Switches and switchgears maintained double-digit growth momentum, reflecting strong demand across both categories.
- **Focus on margin enhancement:** To further strengthen its position, the company aims to improve gross margin in the Electricals segment by 1-1.5%. Pump demand may fluctuate, especially as rising water tables after a strong monsoon could temporarily ease the need for new purchases. Market monitoring will guide the company in adapting to these demand patterns.
- **Electronics segment gains traction:** The Electronics segment, supported by stabilisers, inverters, batteries, and solar inverters, showed healthy growth, with better margins achieved through a larger share of in-house production. Seasonal trends, such as lowered discounting during a hot summer, also helped boost profitability.
- **New battery plant to drive competitive edge:** A new battery manufacturing plant is set to enhance product quality and pricing competitiveness in the market. This facility represents a strategic move to deliver high-quality products at competitive prices, strengthening the company's electronics portfolio and market presence.

Other highlights

- **Sustained summer demand boosts performance:** VGRD saw continued strong demand for summer-related products in Q2FY25, bolstered by the lingering effects of an extended summer from Q1. The onset of Diwali has further boosted sales momentum, with October showing particularly robust traction. In the first half of FY25, VGRD implemented price hikes of 1-3% across various product categories to mitigate input cost fluctuations.

- **Optimised cost structure and employee investment:** Advertisement and travel expenses have normalised, and employee costs have risen slightly due to the establishment of new facilities and additional manpower in SEPL over the past year. The annual employee cost increase is expected to range between 13% and 14%, aligning with VGRD's strategic expansion and operational growth.
- **Production and inventory management balance:** VGRD maintains a 65% in-house production rate, balancing it with 35% outsourcing to optimise efficiency. Channel inventory levels are adequate following strong Q1 sales, ensuring product availability across regions. VGRD's pan-India pricing policy standardises gross margin nationwide, maintaining identical profitability across southern and non-southern markets.
- **Positive growth outlook in key segments:** Looking forward, VGRD anticipates significant growth in Consumer Durables, switches and switchgears, stabilisers, and inverters. An annual capex of Rs 1bn is allocated to support this growth trajectory, underscoring VGRD's commitment to enhancing its product offerings and market reach.

Valuation methodology

To incorporate Q2 we pare our FY25/FY26/FY27 EPS estimates by 3% each as we expect ongoing challenges like increased competition and pricing issues to continue. We roll forward valuations to Sep'26E, and maintain TP at Rs 440. We continue to value the stock at 37x P/E – in line with its five-year average. Maintain HOLD.

Fig 13 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	55,893	65,108	75,160	55,893	65,108	75,180	0.0	0.0	(0.0)
EBITDA	5,594	6,735	8,000	5,761	6,904	8,266	(2.9)	(2.5)	(3.2)
PAT	3,674	4,693	5,659	3,800	4,822	5,861	(3.3)	(2.7)	(3.4)
EPS (Rs)	8.5	10.9	13.1	8.8	11.2	13.6	(3.3)	(2.7)	(3.4)
EBITDA Margin (%)	10.0	10.3	10.6	10.3	10.6	11.0	(30bps)	(30bps)	(40bps)

Source: Company, BOBCAPS Research

Key risks

Key upside and downside risks to our estimates are:

- greater-than-expected growth in non-South India regions, and
- increased competition in the kitchen appliances segment, which may result in lower-than-expected growth for Sunflame.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	41,260	48,567	55,893	65,108	75,160
EBITDA	3,199	4,267	5,594	6,735	8,000
Depreciation	644	809	892	937	1,072
EBIT	2,555	3,458	4,702	5,798	6,928
Net interest inc./(exp.)	(162)	(395)	(198)	(133)	(94)
Other inc./(exp.)	164	340	408	510	613
Exceptional items	0	0	0	0	0
EBT	2,557	3,403	4,912	6,175	7,446
Income taxes	667	827	1,238	1,482	1,787
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,891	2,576	3,674	4,693	5,659
Adjustments	0	0	0	0	0
Adjusted net profit	1,891	2,576	3,674	4,693	5,659

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	4,885	5,500	8,422	9,811	11,325
Other current liabilities	1,814	2,983	3,432	3,998	4,616
Provisions	0	0	0	0	0
Debt funds	4,196	2,910	1,323	1,023	723
Other liabilities	2,097	2,078	2,391	2,785	3,215
Equity capital	432	434	434	434	434
Reserves & surplus	15,644	17,708	20,647	24,519	29,357
Shareholders' fund	16,076	18,142	21,082	24,954	29,792
Total liab. and equities	29,069	31,613	36,650	42,571	49,671
Cash and cash eq.	670	574	1,094	2,019	3,249
Accounts receivables	5,687	5,958	6,738	7,849	10,708
Inventories	7,674	8,118	10,719	13,378	15,238
Other current assets	1,021	1,724	1,984	2,312	2,668
Investments	0	0	0	0	0
Net fixed assets	5,683	5,131	5,739	6,302	6,729
CWIP	237	248	285	332	384
Intangible assets	6,822	8,334	8,334	8,334	8,334
Deferred tax assets, net	0	0	0	0	0
Other assets	1,274	1,525	1,755	2,045	2,361
Total assets	29,069	31,613	36,650	42,571	49,671

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	4,238	3,927	4,297	3,488	3,788
Capital expenditures	(1,012)	(1,274)	(1,500)	(1,500)	(1,500)
Change in investments	(6,615)	(200)	0	0	0
Other investing cash flows	(85)	(52)	46	58	63
Cash flow from investing	(7,712)	(1,526)	(1,454)	(1,442)	(1,437)
Equities issued/Others	1	0	0	0	0
Debt raised/repaid	1,349	(1,296)	(1,588)	(300)	(300)
Interest expenses	0	0	0	0	0
Dividends paid	1,912	(1,026)	(735)	(821)	(821)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	3,262	(2,322)	(2,322)	(1,121)	(1,121)
Chg in cash & cash eq.	(212)	79	521	924	1,230
Closing cash & cash eq.	670	574	1,094	2,019	3,249

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	4.4	6.0	8.5	10.9	13.1
Adjusted EPS	4.4	6.0	8.5	10.9	13.1
Dividend per share	1.3	1.4	1.7	1.9	1.9
Book value per share	37.2	42.0	48.8	57.7	68.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.4	3.8	3.3	2.8	2.4
EV/EBITDA	57.2	42.8	32.7	27.1	22.9
Adjusted P/E	96.7	71.0	49.8	39.0	32.3
P/BV	11.4	10.1	8.7	7.3	6.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.9	75.7	74.8	76.0	76.0
Interest burden (PBT/EBIT)	100.1	98.4	104.5	106.5	107.5
EBIT margin (EBIT/Revenue)	6.2	7.1	8.4	8.9	9.2
Asset turnover (Rev./Avg TA)	7.3	9.5	9.7	10.3	11.2
Leverage (Avg TA/Avg Equity)	0.4	0.3	0.3	0.3	0.2
Adjusted ROAE	12.5	15.1	18.7	20.4	20.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	17.9	17.7	15.1	16.5	15.4
EBITDA	(6.0)	33.4	31.1	20.4	18.8
Adjusted EPS	(16.9)	36.2	42.6	27.7	20.6
Profitability & Return ratios (%)					
EBITDA margin	7.8	8.8	10.0	10.3	10.6
EBIT margin	6.2	7.1	8.4	8.9	9.2
Adjusted profit margin	4.6	5.3	6.6	7.2	7.5
Adjusted ROAE	12.5	15.1	18.7	20.4	20.7
ROCE	11.7	13.9	17.6	19.8	20.3
Working capital days (days)					
Receivables	47	44	44	44	52
Inventory	72	59	70	75	74
Payables	43	39	55	55	55
Ratios (x)					
Gross asset turnover	5.8	6.0	6.3	6.3	6.3
Current ratio	1.8	1.6	1.7	1.8	2.0
Net interest coverage ratio	15.8	8.7	23.7	43.6	73.7
Adjusted debt/equity	0.3	0.2	0.1	0.0	0.0

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

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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

BUY – Expected return >+15%

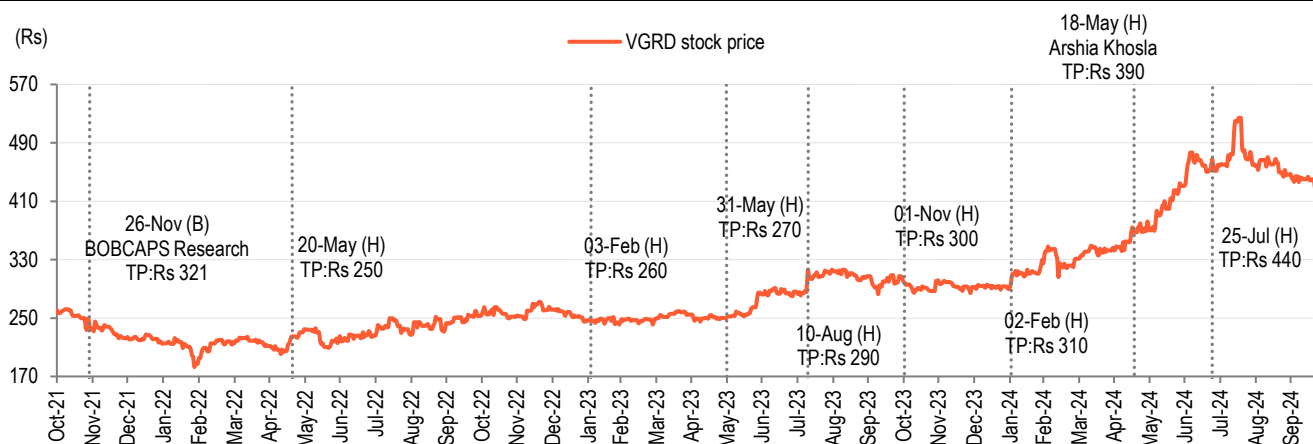
HOLD – Expected return from -6% to +15%

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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