

HOLD
 TP: Rs 390 | ▲ 9%

V-GUARD INDUSTRIES

Consumer Durables

29 January 2025

Revenue in line; weak margins hurt bottomline

- **Topline grew 9% YoY, driven by steady gains across the Electronics, Electricals, and ECD segments, while Sunflame sales held steady**
- **Electricals margins fell on raw material volatility, while Sunflame growth was modest at 4% YoY amid weak sentiment**
- **We pare FY25/FY26/FY27 EPS estimates by 10% each and value the stock at 35x P/E Dec'26E. We cut TP to Rs 390 and maintain HOLD**

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Broad-based growth in Q3: Consolidated revenue grew 9% YoY to Rs 12.6bn, in line with expectations and driven by strong performance across the Electronics, Electricals, and ECD segments, though Sunflame sales remained flat. The South region (excluding Sunflame) contributed 52% of total sales at Rs 6.1bn, up 3% YoY, while Non-South India sales rose by 16% YoY to Rs 5.7bn, making up 48% of total sales. Gross margin expanded 230bps YoY to 36.2%, supported by cost controls, increased in-house manufacturing, and premiumisation. EBITDA came in at Rs 1bn with an EBITDAM of 8.2%, slightly under expectations due to copper price volatility. PAT increased 3% YoY to Rs 602mn.

Strong performance across segments with mixed margin impact: Electronics segment sales surged 30% YoY to Rs 2.8bn, with a notable EBIT margin increase of 670bps YoY to 19.6%. Electricals saw modest 1% YoY growth to Rs 4.7bn, though its EBIT margin dipped 10bps to 9% due to copper price volatility affecting wire costs. Consumer Durables achieved 8% YoY sales growth, with an EBIT margin boost of 120bps to 4.2%. In contrast, Sunflame's sales grew 4% to Rs 794mn, and its EBIT margin fell by 720bps to 2.8%, reflecting some challenges in margin retention.

Regional revenue surge: VGRD posted strong regional growth, with non-South India revenue climbing 16% YoY, showcasing robust market expansion. The South region saw a modest 3% YoY growth. For the second consecutive quarter, non-South markets contributed ~50% of total revenue, emphasising the growing importance of these regions in VGRD's overall revenue mix.

Valuation outlook: To incorporate Q3 we pare our FY25/FY26/FY27 EPS estimates by 10% each as we expect ongoing challenges like increased competition and pricing issues to continue. We roll forward valuations to Dec'26E, and cut our TP to Rs 390 (from Rs 440). We now value the stock at 35x P/E. Maintain HOLD.

Key changes

| Target | Rating |
|--------|--------|
| ▼ | ◀ ▶ |

| | |
|------------------|----------------|
| Ticker/Price | VGRD IN/Rs 357 |
| Market cap | US\$ 1.8bn |
| Free float | 44% |
| 3M ADV | US\$ 1.6mn |
| 52wk high/low | Rs 577/Rs 289 |
| Promoter/FPI/DII | 56%/13%/19% |

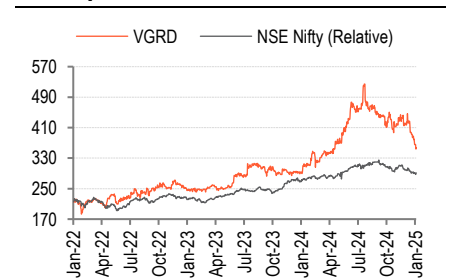
Source: NSE | Price as of 29 Jan 2025

Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|-------------------------|--------|--------|--------|
| Total revenue (Rs mn) | 48,567 | 55,893 | 65,108 |
| EBITDA (Rs mn) | 4,267 | 5,314 | 6,377 |
| Adj. net profit (Rs mn) | 2,576 | 3,302 | 4,249 |
| Adj. EPS (Rs) | 6.0 | 7.6 | 9.8 |
| Consensus EPS (Rs) | 6.0 | 9.0 | 11.0 |
| Adj. ROAE (%) | 15.1 | 17.0 | 18.9 |
| Adj. P/E (x) | 59.9 | 46.8 | 36.3 |
| EV/EBITDA (x) | 36.2 | 29.1 | 24.2 |
| Adj. EPS growth (%) | 36.2 | 28.2 | 28.7 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

| Rs mn | Q3FY25 | Q3FY24 | YoY (%) | Q2FY25 | QoQ (%) | 9MFY25 | 9MFY24 | YoY (%) | Q3FY25E | Variance (%) |
|---------------------|--------|--------|---------|--------|---------|--------|--------|---------|---------|--------------|
| Revenue | 12,687 | 11,654 | 8.9 | 12,940 | (2.0) | 40,397 | 35,139 | 15.0 | 12,732 | (0.4) |
| EBITDA | 1,041 | 1,016 | 2.5 | 1,103 | (5.6) | 3,702 | 2,989 | 23.9 | 1,159 | (10.2) |
| EBITDA Margin (%) | 8.2 | 8.7 | (50bps) | 8.5 | (30bps) | 9.2 | 8.5 | 70bps | 9.1 | (90bps) |
| Depreciation | 250 | 191 | | 221 | | 689 | 587 | | | |
| Interest | 58 | 94 | | 76 | | 220 | 296 | | | |
| Other Income | 54 | 32 | | 41 | | 164 | 291 | | | |
| PBT | 787 | 763 | 3.3 | 846 | (6.9) | 2,957 | 2,397 | 23.4 | | |
| Tax | 185 | 180 | | 212 | | 731 | 583 | | | |
| Adjusted PAT | 602 | 582 | 3.4 | 634 | (5.0) | 2,226 | 1,814 | 22.7 | 664 | (9.3) |
| Exceptional item | - | - | | - | | - | - | | | |
| Reported PAT | 602 | 582 | 3.4 | 634 | (5.0) | 2,226 | 1,814 | 22.7 | | |
| Adj. PAT Margin (%) | 4.7 | 5.0 | (30bps) | 4.9 | (20bps) | 5.5 | 5.2 | 30bps | | |
| EPS (Rs) | 1.4 | 1.3 | 3.4 | 1.5 | (5.0) | 5.2 | 4.2 | 22.7 | | |

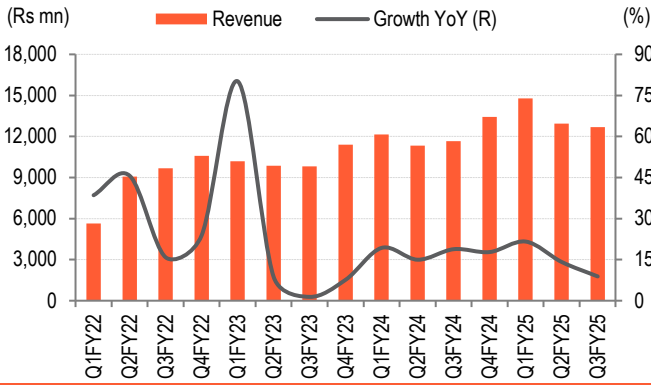
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

| Rs mn | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenues | | | | | | | | | | | | | |
| Consumer Durables | 3,384 | 2,959 | 2,991 | 3,372 | 3,537 | 2,862 | 3,312 | 3,547 | 3,928 | 3,657 | 4,176 | 3,923 | 4,248 |
| Growth YoY | 28.1 | 32.3 | 99.7 | 20.7 | 4.5 | (3.3) | 10.7 | 5.2 | 11.1 | 27.8 | 26.1 | 10.6 | 8.1 |
| Electricals | 4,292 | 5,152 | 4,159 | 4,216 | 4,358 | 5,253 | 4,567 | 4,623 | 4,727 | 5,814 | 4,877 | 5,376 | 4,786 |
| Growth YoY | 18.1 | 32.5 | 62.1 | 0.7 | 1.6 | 2.0 | 9.8 | 9.6 | 8.5 | 10.7 | 6.8 | 16.3 | 1.2 |
| Electronics | 1,999 | 2,471 | 3,034 | 2,274 | 1,914 | 2,717 | 3,637 | 2,551 | 2,236 | 3,228 | 5,131 | 3,030 | 2,860 |
| Growth YoY | (3.6) | 1.8 | 90.8 | 8.7 | (4.3) | 10.0 | 19.9 | 12.2 | 16.9 | 18.8 | 41.1 | 18.8 | 27.9 |
| Sunflame | | | | | | 569 | 632 | 617 | 763 | 730 | 587 | 611 | 794 |
| EBIT | | | | | | | | | | | | | |
| Consumer Durables | 96 | 50 | 38 | 97 | (45) | (11) | 9 | (1) | 117 | 129 | 217 | 161 | 177 |
| Margin (%) | 2.8 | 1.7 | 1.3 | 2.9 | (1.3) | (0.4) | 0.3 | (0.0) | 3.0 | 3.5 | 5.2 | 4.1 | 4.2 |
| Electricals | 355 | 555 | 283 | 228 | 397 | 478 | 290 | 383 | 429 | 724 | 492 | 491 | 429 |
| Margin (%) | 8.3 | 10.8 | 6.8 | 5.4 | 9.1 | 9.1 | 6.3 | 8.3 | 9.1 | 12.5 | 10.1 | 9.1 | 9.0 |
| Electronics | 338 | 431 | 429 | 333 | 222 | 325 | 585 | 370 | 287 | 483 | 1,035 | 595 | 562 |
| Margin (%) | 16.9 | 17.4 | 14.1 | 14.6 | 11.6 | 12.0 | 16.1 | 14.5 | 12.9 | 15.0 | 20.2 | 19.6 | 19.6 |
| Sunflame | | | | | | 80 | 58 | 37 | 82 | 73 | 27 | 9 | 22 |
| Margin (%) | | | | | | 14.1 | 9.2 | 6.0 | 10.8 | 10.0 | 4.7 | 1.4 | 2.8 |

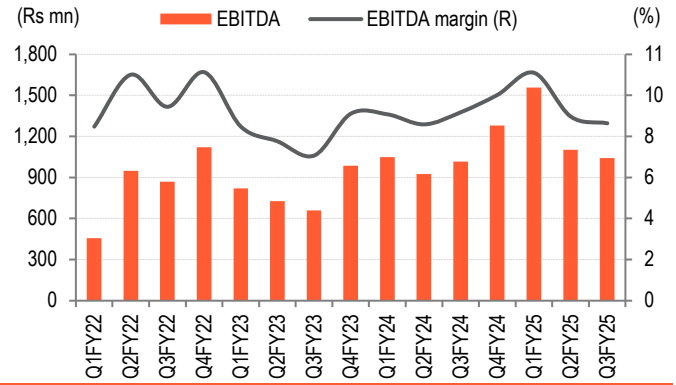
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



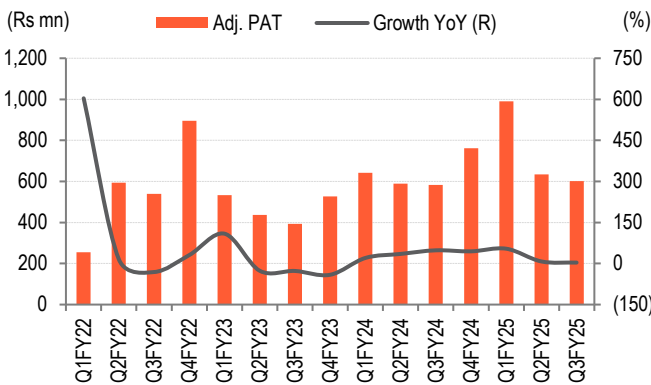
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



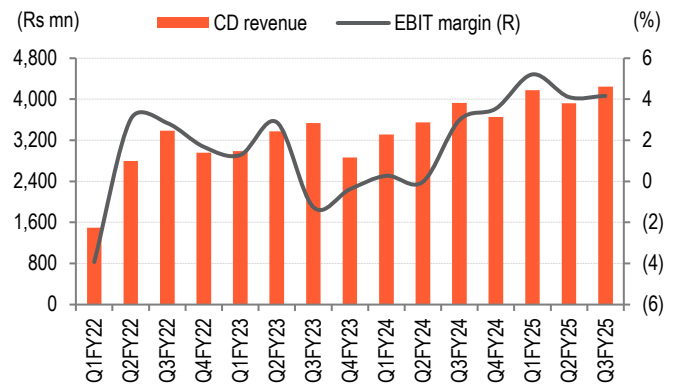
Source: Company, BOBCAPS Research

Fig 5 – PAT growth trend



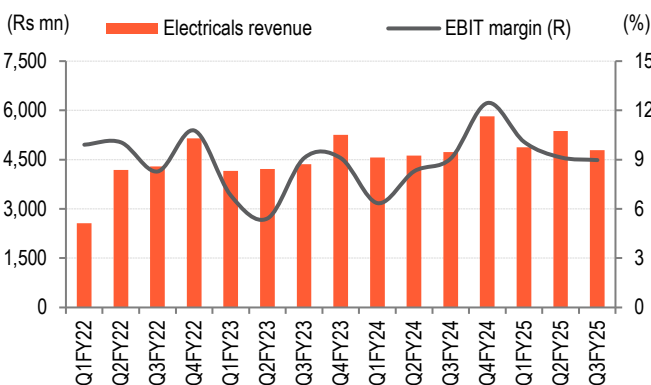
Source: Company, BOBCAPS Research

Fig 6 – Consumer Durables performance



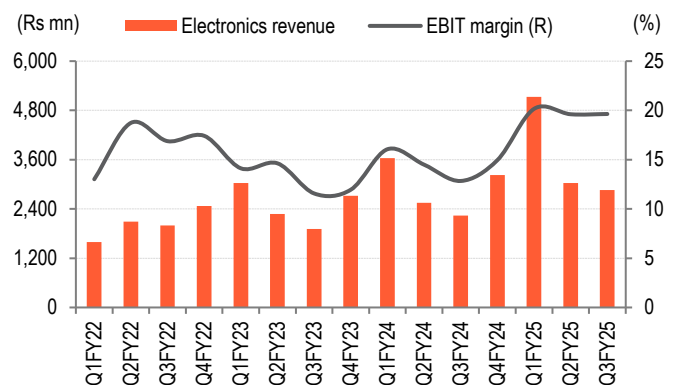
Source: Company, BOBCAPS Research

Fig 7 – Electricals business performance



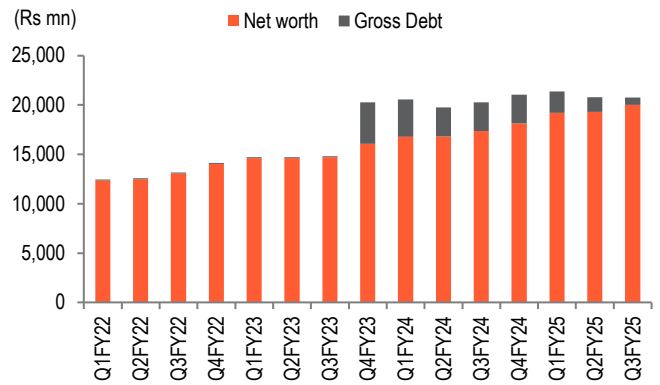
Source: Company, BOBCAPS Research

Fig 8 – Electronics business performance



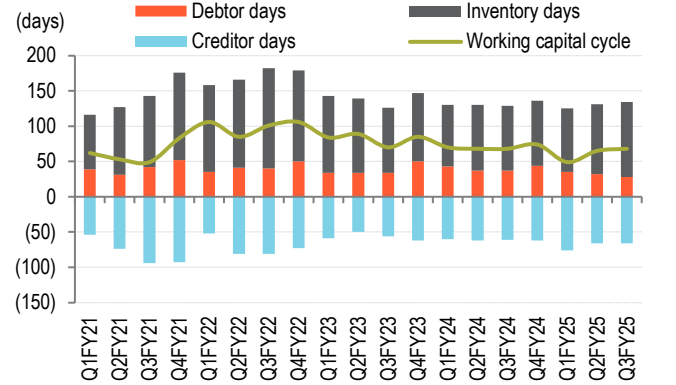
Source: Company, BOBCAPS Research

Fig 9 – Capital levels



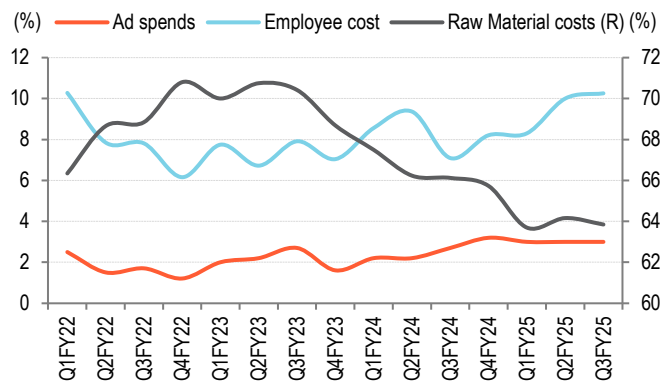
Source: Company, BOBCAPS Research

Fig 10 – Working capital cycle



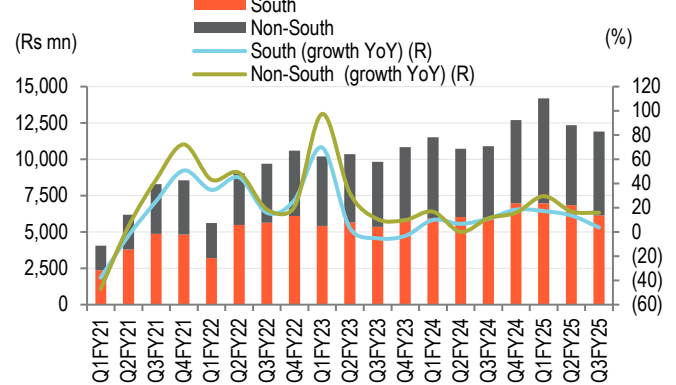
Source: Company, BOBCAPS Research

Fig 11 – Cost profile



Source: Company, BOBCAPS Research

Fig 12 – Geographical revenue breakdown for India



Source: Company, BOBCAPS Research

Earnings call highlights

Electronics and Electricals

- **Growth & Performance:** Strong growth across stabilisers, inverters, batteries, and solar rooftop solutions. In-house battery manufacturing improved pricing and margins. Solar rooftop solutions are scaling up rapidly from a low base. Gained a strong presence in South India, driven by superior after-sales service compared to peers.
- **Wires & Switches:** Wires demand impacted by commodity price fluctuations, but up-stocking resumed in January with rising copper prices. Switches saw sluggish demand, while switchgears witnessed good scale-up. VGRD has invested significantly in brand building across dealer and distributor networks.

Consumer Durables

- **Fans:** Fans performed well. By the time the Hyderabad plant becomes operational, the Roorkee facility will reach full utilisation. The Hyderabad facility aims to produce premium and differentiated TPW (table, pedestal, wall) fans, as the current outsourcing ecosystem lacks brand exclusivity. The Roorkee fan plant, set up 3-4 years ago, has significantly boosted VGRD's share in the premium fan segment.

- **Water heaters:** Water heater sales were weak due to lower seasonal growth in winter.

Sunflame

- **Kitchen appliances:** Kitchen appliances growth was slow, primarily due to deep market penetration and advance purchases during COVID. Despite intense competition, unorganised players have not gained market share.
- **Sunflame:** Sunflame's weak growth reflects a broader slowdown in kitchen appliances, not structural issues. Canteen Stores Department (CSD) sales were sluggish due to existing inventories. Excluding CSD, Sunflame would have posted double-digit growth. Previously, Sunflame had a lean sales team working with super stockists. Under VGRD, the sales force has expanded, enabling direct engagement with retailers.

Other highlights

- **Debt repayments and Investments:** On track to repay Sunflame debt by the end of FY25. Approved Rs 1bn investment for ceiling and TPW fans at the Hyderabad plant, to be spent over three years. Rs 500mn allocated for FY26, with the first phase expected to begin commercial production in 18 months.
- **Regional performance:** Growth in South India was weak, primarily due to the higher contribution of the wires segment. Demand in Andhra Pradesh and Telangana was particularly sluggish.
- **Manufacturing strategy:** In-house manufacturing stands at 65%, with plans to reach 75% in the next 2-3 years. Wires are fully manufactured in-house, while other categories follow a mix of in-house and outsourced production. A new in-house manufacturing facility is established only if its IRR and RoCE are accretive.

Valuation methodology

To incorporate Q3 we pare our FY25/FY26/FY27 EPS estimates by 10% each as we expect ongoing challenges like increased competition and pricing issues to continue. We roll forward valuations to Dec'26E, and cut out TP to Rs 390 (from Rs 440). We now value the stock at 35x P/E Dec'26. 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 | 75,160 | 0.0 | 0.0 | 0.0 |
| EBITDA | 5,314 | 6,377 | 7,399 | 5,594 | 6,735 | 8,000 | (5.0) | (5.3) | (7.5) |
| PAT | 3,302 | 4,249 | 5,046 | 3,674 | 4,693 | 5,659 | (10.1) | (9.5) | (10.8) |
| EPS (Rs) | 7.6 | 9.8 | 11.7 | 8.5 | 10.9 | 13.1 | (10.1) | (9.5) | (10.8) |
| EBITDA Margin (%) | 9.5 | 9.8 | 9.8 | 10.0 | 10.3 | 10.6 | (50bps) | (60bps) | (80bps) |

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 | 5,314 | 6,377 | 7,399 |
| Depreciation | 644 | 809 | 1,070 | 1,042 | 1,192 |
| EBIT | 2,555 | 3,458 | 4,244 | 5,335 | 6,207 |
| Net interest inc./(exp.) | (162) | (395) | (238) | (256) | (181) |
| Other inc./(exp.) | 164 | 340 | 408 | 510 | 613 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 2,557 | 3,403 | 4,415 | 5,590 | 6,639 |
| Income taxes | 667 | 827 | 1,112 | 1,342 | 1,593 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 1,891 | 2,576 | 3,302 | 4,249 | 5,046 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 1,891 | 2,576 | 3,302 | 4,249 | 5,046 |

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 | 20,275 | 23,703 | 27,927 |
| Shareholders' fund | 16,076 | 18,142 | 20,710 | 24,137 | 28,362 |
| Total liab. and equities | 29,069 | 31,613 | 36,278 | 41,754 | 48,241 |
| Cash and cash eq. | 670 | 574 | 901 | 1,484 | 2,220 |
| 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 | 5,561 | 6,019 | 6,328 |
| 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 | 36,278 | 41,754 | 48,241 |

Cash Flows

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash flow from operations | 4,238 | 3,927 | 4,103 | 3,147 | 3,294 |
| 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 | 327 | 584 | 736 |
| Closing cash & cash eq. | 670 | 574 | 901 | 1,484 | 2,220 |

Per Share

| Y/E 31 Mar (Rs) | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 4.4 | 6.0 | 7.6 | 9.8 | 11.7 |
| Adjusted EPS | 4.4 | 6.0 | 7.6 | 9.8 | 11.7 |
| Dividend per share | 1.3 | 1.4 | 1.7 | 1.9 | 1.9 |
| Book value per share | 37.2 | 42.0 | 47.9 | 55.9 | 65.6 |

Valuations Ratios

| Y/E 31 Mar (x) | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 3.7 | 3.2 | 2.8 | 2.4 | 2.1 |
| EV/EBITDA | 48.3 | 36.2 | 29.1 | 24.2 | 20.9 |
| Adjusted P/E | 81.7 | 59.9 | 46.8 | 36.3 | 30.6 |
| P/BV | 9.6 | 8.5 | 7.5 | 6.4 | 5.4 |

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 | 104.0 | 104.8 | 107.0 |
| EBIT margin (EBIT/Revenue) | 6.2 | 7.1 | 7.6 | 8.2 | 8.3 |
| Asset turnover (Rev./Avg TA) | 7.3 | 9.5 | 10.1 | 10.8 | 11.9 |
| Leverage (Avg TA/Avg Equity) | 0.4 | 0.3 | 0.3 | 0.3 | 0.2 |
| Adjusted ROAE | 12.5 | 15.1 | 17.0 | 18.9 | 19.2 |

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 | 24.5 | 20.0 | 16.0 |
| Adjusted EPS | (16.9) | 36.2 | 28.2 | 28.7 | 18.8 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 7.8 | 8.8 | 9.5 | 9.8 | 9.8 |
| EBIT margin | 6.2 | 7.1 | 7.6 | 8.2 | 8.3 |
| Adjusted profit margin | 4.6 | 5.3 | 5.9 | 6.5 | 6.7 |
| Adjusted ROAE | 12.5 | 15.1 | 17.0 | 18.9 | 19.2 |
| ROCE | 11.7 | 13.9 | 16.2 | 18.8 | 19.1 |
| 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 | 1.9 |
| Net interest coverage ratio | 15.8 | 8.7 | 17.8 | 20.9 | 34.4 |
| 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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Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

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SEBI Research Analyst Registration No: **INH000000040 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%

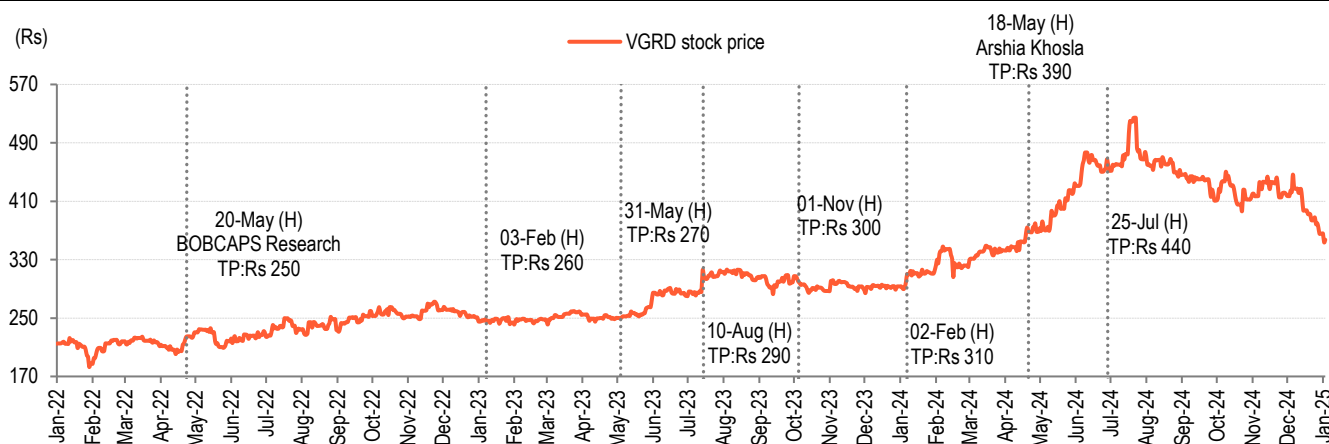
HOLD – Expected return from -6% to +15%

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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