

HOLD

TP: Rs 250 | ▲ 11%

V-Guard Industries

Consumer Durables

20 May 2022

Margin pressure continues

- Q4 revenue growth strong at 24% YoY on the back of higher sales in electrical and consumer durables segments, but margins remain stressed
- Expansion into non-southern markets and greater focus on inhouse manufacturing remain key for VGRD
- Slow growth in base business and higher competition in consumer durables weaken outlook; assume coverage with HOLD, TP Rs 250

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Stellar topline but increased RM cost impacts bottomline: VGRD's Q4FY22 revenue grew 24% YoY to Rs 10.6bn backed by 32% growth in both the electrical and consumer durables segments. Gross margin declined 265bps YoY to 29.1% owing to higher raw material prices. EBIT margin fell 225bps YoY to 9.3% as higher operating leverage was more than offset by lower gross margins. PBT was flat YoY at Rs 1bn but because the company opted for a lower tax regime, net income rose 31% YoY to Rs 896mn. Cash flow from operations turned negative for FY22 due to higher inventory. Management expects inventory days to normalise post June.

Non-south expansion and base business recovery hold key: VGRD has a +40% market share in the stabiliser business, which is heavily dependent on the sale of summer products such as ACs and refrigerators. Given the recent heatwaves and power outages across India, we do expect stabiliser sales to surge but the long-term segment growth outlook looks moderate. Further, the company is predominantly focused on South India where it derives ~58.5% of its total revenue and hence expansion beyond this market continues to hold the key to future growth.

In-house manufacturing to aid cost efficiencies: The company has historically used outsourced manufacturing for new product categories. Once it acquires some market share in the new category, it starts manufacturing inhouse. As of FY22, ~60% of manufacturing was inhouse vs. 40% in FY16. Management remains confident that raising own manufacturing coupled with premiumisation of products will help it improve gross margins by 100bps every year, once inflationary headwinds subside.

HOLD, TP Rs 250: Since the pandemic began in Mar'20, VGRD's stock has underperformed the Nifty 50 by 48%. While the stabiliser business is steady due to healthy room AC demand and efforts to raise penetration in non-southern regions, we believe the company still lags peers when it comes to market share and margins. We assume coverage with a HOLD rating and a TP of Rs 250, based on 35x FY24E EPS – a 7.5% discount to the stock's 4Y average. Faster-than-expected improvement in non-southern markets represents a key upside risk to our estimates, while failure to navigate the rising input cost pressures poses a downside risk.

Key changes

Target	Rating
▼	▼

Ticker/Price	VGRD IN/Rs 225
Market cap	US\$ 1.2bn
Free float	44%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 285/Rs 181
Promoter/FPI/DII	56%/13%/17%

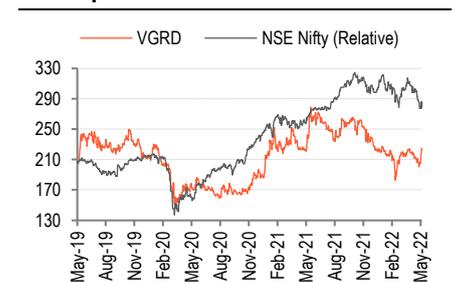
Source: NSE | Price as of 20 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	34,982	39,664	43,120
EBITDA (Rs mn)	3,329	4,034	4,482
Adj. net profit (Rs mn)	2,277	2,707	3,074
Adj. EPS (Rs)	5.3	6.3	7.1
Consensus EPS (Rs)	5.3	6.9	7.7
Adj. ROAE (%)	17.4	17.9	17.6
Adj. P/E (x)	42.7	35.9	31.6
EV/EBITDA (x)	28.6	23.7	21.3
Adj. EPS growth (%)	12.0	18.9	13.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Annual and quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue (post indirect taxes)	10,582	8,552	23.7	9,674	9.4	34,982	27,212	28.6
Cost of Revenue	(7,499)	(5,835)	28.5	(6,660)	12.6	(24,139)	(18,525)	30.3
Gross Profit	3,083	2,716	13.5	3,014	2.3	10,843	8,687	24.8
Gross Margin (%)	29.1	31.8	(263bps)	31.2	(202bps)	31.0	31.9	(93bps)
Employee Benefits Expense	(652)	(575)	13.4	(755)	(13.7)	(2,700)	(2,266)	19.2
Other Expense	(1,321)	(1,038)	27.3	(1,391)	(5.0)	(4,761)	(3,300)	44.2
Other Income	0	0	-	0	-	0	0	-
EBITDA	1,110	1,104	0.6	868	27.9	3,382	3,121	8.4
EBITDA margin (%)	10.5	12.9	(242bps)	9.0	152.2bps	9.7	11.5	(180bps)
Depreciation & Amortization	(129)	(120)	7.8	(138)	(6.3)	(491)	(386)	27.2
EBIT	981	984	(0.3)	730	34.4	2,891	2,735	5.7
EBIT margin (%)	9.3	11.5	(224bps)	7.5	173bps	8.3	10.0	(179bps)
Interest Income	9	32	(71.2)	17	(44.3)	73	182	(59.6)
Interest Expense	(18)	(26)	(31.5)	(15)	17.4	(79)	(61)	29.2
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	27	7	282.3	10	165.7	54	25	113.2
Forex	0	0	-	0	-	0	0	-
Total Financials	19	14	37.5	12	57.6	49	146	(66.5)
Income after financial items	1,000	998	0.2	742	34.8	2,940	2,881	2.0
Margin (%)	9.4	11.7	(222bps)	7.7	178bps	8.4	10.6	(218bps)
Associate Income	0	0	-	0	-	0	0	-
Pretax income	1,000	998	0.2	742	34.8	2,940	2,881	2.0
Total Non-Recurring	0	0	-	0	-	0	0	-
Reported Pretax	1,000	998	0.2	742	34.8	2,940	2,881	2.0
Taxation	0	0	-	0	-	0	0	-
Total	(104)	(314)	(66.8)	(203)	(48.6)	(655)	(862)	(24.0)
% of pretax income before Associates	10	31	(66.9)	27	0.0	97	119	0.0
Net income before minorities	896	684	31.0	539	66.1	2,284	2,019	13.1
Minorities	1	(5)	(122.4)	(1)	(285.8)	(1)	(11)	(95.0)
Net income after minorities	897	678	32.2	539	66.6	2,284	2,008	13.7
Tax on non-core	0	0	-	0	-	0	0	-
Core net income	897	678	32.2	539	66.6	2,284	2,008	13.7
Net margin (%)	8.5	7.9	54bps	5.6	291bps	6.5	7.4	(85bps)

Source: Company, Bloomberg

Fig 2 – Segment performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue								
Electrical /Electro Mechanical	5,152	3,887	32.5	4,292	20.1	16,197	12,257	32.1
Electronics	2,471	2,428	1.8	1,999	23.6	8,151	7,589	7.4
Consumer Durables	2,959	2,237	32.3	3,384	(12.6)	10,634	7,367	44.4
EBIT								
Electrical /Electro Mechanical	555	427	29.9	355	56.3	1,586	1,104	43.6
Electronics	431	531	(18.8)	338	27.6	1,368	1,442	(5.1)
Consumer Durables	50	89	(44.4)	96	(48.3)	171	403	(57.5)
EBIT (%)								
Electrical /Electro Mechanical	10.8	11.0	(22bps)	8.3	250bps	9.8	9.0	78bps
Electronics	17.4	21.9	(443bps)	16.9	54bps	16.8	19.0	(222bps)
Consumer Durables	1.7	4.0	(231bps)	2.8	(116bps)	1.6	5.5	(386bps)

Source: Company, BOBCAPS Research

Valuation methodology

Since the pandemic began in Mar'20, VGRD's stock has underperformed the Nifty 50 by 48%. While the stabiliser business is steady due to healthy room AC demand and efforts to raise penetration in non-southern regions, we believe the company still lags peers when it comes to market share and margins. We assume coverage with a HOLD rating and a TP of Rs 250, based on 35x FY24E EPS – a 7.5% discount to the stock's four-year average.

Fig 3 – Estimates Vs. Consensus

(Rs mn)	BOBCAPS		Bloomberg		Variance (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	39.7	43.1	38.5	43.0	3.1	0.2
EBITDA	4.0	4.5	4.0	4.6	1.9	(2.4)
EBIT	3.5	3.9	3.5	4.1	0.5	(3.8)
Pretax Income	3.6	4.1	3.3	3.9	8.6	4.6
Net Income	2.7	3.1	2.7	3.2	(0.2)	(3.7)
EPS (Rs)	6.3	7.1	6.0	7.2	3.8	(1.2)

Source: BOBCAPS Research

Key risks

Upside risks to our estimates include:

- strong improvement in margins due to better pricing, and
- better penetration in existing southern markets.

Downside risks include:

- decline in demand due to further Covid waves and/or raw material inflation,
- continued weak margins in consumer durables, and
- failure to penetrate into non-southern markets.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.2	2,717	3,500	HOLD
Blue Star	BLSTR IN	1.3	1,015	1,200	HOLD
Crompton Greaves	CROMPTON IN	2.8	342	621	BUY
Dixon Technologies	DIXON IN	2.6	3,428	5,431	HOLD
Havells India	HAVL IN	9.9	1,229	1,500	BUY
Orient Electric	ORIENTEL IN	0.8	279	350	HOLD
Polycab India	POLYCAB IN	4.9	2,557	3,000	BUY
V-Guard Industries	VGRD IN	1.2	225	250	HOLD
Voltas	VOLT IN	4.2	975	1,250	BUY
Whirlpool India	WHIRL IN	2.5	1,544	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 20 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	25,029	27,212	34,982	39,664	43,120
EBITDA	2,630	3,146	3,329	4,034	4,482
Depreciation	(294)	(386)	(439)	(502)	(577)
EBIT	2,336	2,760	2,891	3,531	3,905
Net interest inc./(exp.)	98	121	(5)	45	163
Other inc./(exp.)	69	3	54	54	54
Exceptional items	(7)	(3)	0	0	0
EBT	2,496	2,881	2,940	3,631	4,122
Income taxes	(613)	(862)	(655)	(915)	(1,039)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(11)	(11)	(7)	(9)	(10)
Reported net profit	1,871	2,008	2,277	2,707	3,074
Adjustments	50	25	0	0	0
Adjusted net profit	1,921	2,034	2,277	2,707	3,074

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	3,051	4,747	4,880	6,520	6,498
Other current liabilities	3,426	5,180	5,364	7,004	6,982
Provisions	97	117	57	57	57
Debt funds	460	629	684	1,676	126
Other liabilities	173	211	246	255	265
Equity capital	428	430	432	432	432
Reserves & surplus	9,526	11,683	13,638	15,786	18,321
Shareholders' fund	9,955	12,113	14,070	16,218	18,752
Total liab. and equities	14,549	18,750	20,966	25,756	26,728
Cash and cash eq.	1,116	2,811	613	3,965	4,312
Accounts receivables	3,243	3,881	4,841	5,489	5,968
Inventories	4,790	6,315	8,586	9,237	9,215
Other current assets	1,456	1,003	1,162	1,162	1,162
Investments	3	337	337	337	337
Net fixed assets	2,746	3,576	4,505	4,666	4,859
CWIP	0	0	0	0	0
Intangible assets	60	81	85	85	85
Deferred tax assets, net	25	38	91	91	91
Other assets	1,112	707	747	724	701
Total assets	14,549	18,750	20,966	25,756	26,728

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	1,407	2,222	(387)	3,460	2,964
Capital expenditures	(850)	(648)	(1,246)	(639)	(747)
Change in investments	0	0	0	0	0
Other investing cash flows	(393)	918	14	0	0
Cash flow from investing	(1,243)	271	(1,233)	(639)	(747)
Equities issued/Others	22	46	(46)	0	0
Debt raised/repaid	0	0	0	992	(1,549)
Interest expenses	0	0	0	(74)	(46)
Dividends paid	(875)	(1)	(516)	(559)	(539)
Other financing cash flows	791	(148)	509	(359)	2,134
Cash flow from financing	(62)	(103)	(53)	0	0
Chg in cash & cash eq.	(619)	2,573	(2,200)	3,354	347
Closing cash & cash eq.	1,116	2,811	612	3,965	4,312

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	4.3	4.6	5.3	6.3	7.1
Adjusted EPS	4.4	4.7	5.3	6.3	7.1
Dividend per share	0.9	1.2	1.3	1.3	1.4
Book value per share	23.2	28.2	32.7	37.7	43.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	3.9	3.5	2.7	2.4	2.2
EV/EBITDA	36.7	30.5	28.6	23.7	21.3
Adjusted P/E	50.6	47.8	42.7	35.9	31.6
P/BV	9.7	8.0	6.9	6.0	5.2

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	76.7	70.5	77.5	74.6	74.6
Interest burden (PBT/EBIT)	107.2	104.5	101.7	102.8	105.6
EBIT margin (EBIT/Revenue)	9.3	10.1	8.3	8.9	9.1
Asset turnover (Rev./Avg TA)	177.1	163.4	176.2	169.8	164.3
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	20.3	18.4	17.4	17.9	17.6

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	(3.5)	8.7	28.6	13.4	8.7
EBITDA	15.8	19.6	5.8	21.2	11.1
Adjusted EPS	13.3	5.9	12.0	18.9	13.5
Profitability & Return ratios (%)					
EBITDA margin	10.5	11.6	9.5	10.2	10.4
EBIT margin	9.3	10.1	8.3	8.9	9.1
Adjusted profit margin	7.7	7.5	6.5	6.8	7.1
Adjusted ROAE	20.3	18.4	17.4	17.9	17.6
ROCE	23.8	23.7	20.9	21.8	21.2
Working capital days (days)					
Receivables	47	52	51	51	51
Inventory	70	85	90	85	78
Payables	44	64	51	60	55
Ratios (x)					
Gross asset turnover	8.2	6.7	6.7	6.4	6.3
Current ratio	2.6	2.4	2.5	2.5	2.7
Net interest coverage ratio	(23.8)	(22.8)	539.6	(77.8)	(23.9)
Adjusted debt/equity	0.0	0.1	0.0	0.1	0.0

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

Disclaimer

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

BUY – Expected return >+15%

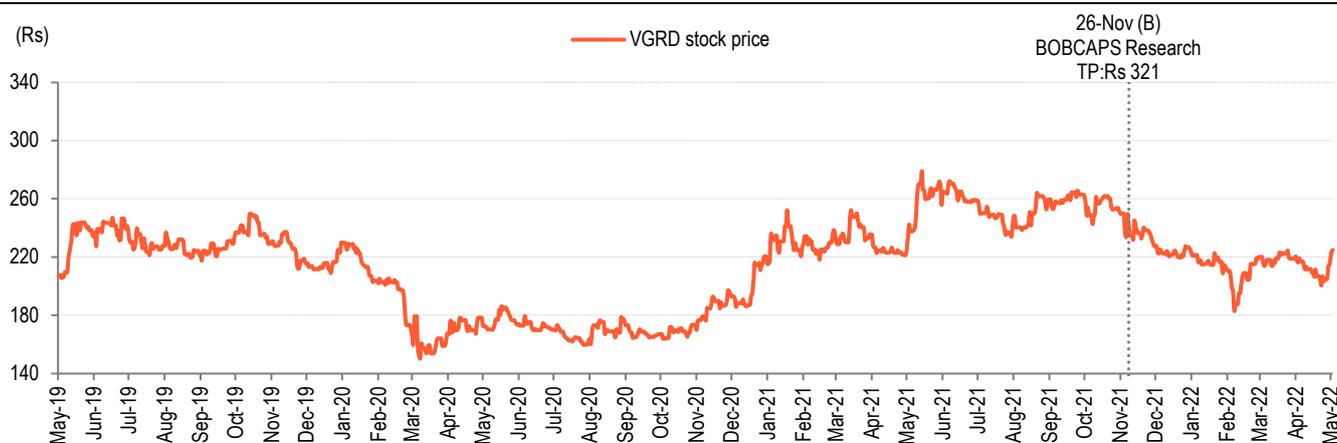
HOLD – Expected return from -6% to +15%

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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