

HOLD

TP: Rs 390 | ▲ 6%

V-GUARD INDUSTRIES

Consumer Durables

18 May 2024

Early summer sparks a robust quarter

- Q4 topline up 18% YoY, fuelled by Consumer Durables segment, as the early onset of summer boosts overall performance
- Pricing actions and initiatives and strategies to enhance EBITDA margins by 100-120bps in FY25
- We raise our P/E to 37x (vs 30x) and roll over valuations to Mar'26E, raising our TP to Rs 390 (from Rs 310). Retain HOLD

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Strong quarter: VGRD's fourth quarter marked a good start to the summer season with a resurgence in demand for Consumer Durables products. Consequently, consolidated net revenues for Q4FY24 stood at Rs 13.43bn, growing 17.8% YoY. For FY24, revenues totalled Rs 48.57bn, growing 17.7% over the previous year. Across all segments, VGRD's topline grew double digits on a YoY basis. Notably, the Consumer Durables segment, comprising fans, water heaters, kitchen appliances and air coolers, experienced robust topline growth of 27.9% in Q4 compared to the previous year.

Growth in all segments rose: Segmental growth in the quarter jumped double digits, with consumer durables leading with a healthy 28% YoY increase, followed by electricals with 11%. Electronics thrived with a 19% YoY surge, while Sunflame showcased robust growth of 28% YoY. Management sees the summer's good start as a sign of things to come, believing it will carry through FY25 and ensure a strong performance for the year.

Pricing actions set to lift margins: VGRD is currently engaged in a comprehensive strategy to enhance bottomline. According to management, it is assessing pricing actions across specific product lines and integrating supplementary initiatives to boost EBITDA margins to 10-10.5%.

Geographical growth strides: As per management, there has been a notable shift in regional growth dynamics, with an 18.6% YoY surge in South India, surpassing the 15.8% rise in non-South markets. This trend indicates a robust commencement of the summer season in the country's southern regions.

Maintain HOLD: We raise our P/E to 37x (from 30x), in line with the 5Y average, as we anticipate improved margins due to management's commitment to new strategies, particularly for Sunflame. We roll forward valuations to Mar'26E, raising our TP to Rs 390 (from Rs 310). However, we maintain our HOLD rating due to ongoing challenges like increased competition and pricing issues.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VGRD IN/Rs 368
Market cap	US\$ 1.9bn
Free float	44%
3M ADV	US\$ 2.8mn
52wk high/low	Rs 379/Rs 239
Promoter/FPI/DII	56%/13%/19%

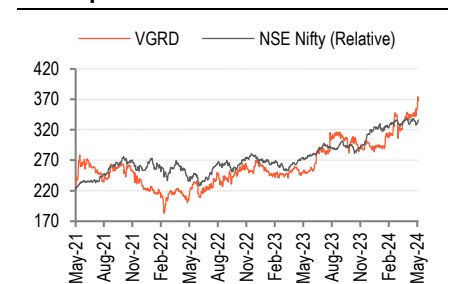
Source: NSE | Price as of 18 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	48,567	55,893	64,090
EBITDA (Rs mn)	4,267	5,761	6,721
Adj. net profit (Rs mn)	2,576	3,800	4,546
Adj. EPS (Rs)	6.0	8.8	10.5
Consensus EPS (Rs)	6.0	8.4	9.8
Adj. ROAE (%)	15.1	19.3	19.7
Adj. P/E (x)	61.7	41.8	35.0
EV/EBITDA (x)	37.2	27.6	23.6
Adj. EPS growth (%)	36.2	47.5	19.7

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

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	13,428	11,401	17.8	11,654	15.2	48,567	41,260	17.7
EBITDA	1,279	987	29.6	1,016	25.8	4,267	3,199	33.4
EBITDA Margin (%)	9.5	8.7	90bps	8.7	80bps	8.8	7.8	100bps
Depreciation	222	191		191		809	644	
Interest	99	102		94		395	162	
Other Income	49	26		32		340	164	
PBT	1,006	721	39.6	763	32.0	3,403	2,557	33.1
Tax	245	194		180		827	667	
Adjusted PAT	762	527	44.5	582	30.8	2,576	1,890	36.3
Exceptional item	-	-		-		-	-	
Reported PAT	762	527	44.5	582	30.8	2,576	1,891	36.2
Adj. PAT Margin (%)	5.7	4.6	100bps	5.0	70bps	5.3	4.6	70bps
EPS (Rs)	1.8	1.2	44.5	1.3	30.8	6.0	4.4	36.2

Source: Company, BOBCAPS Research

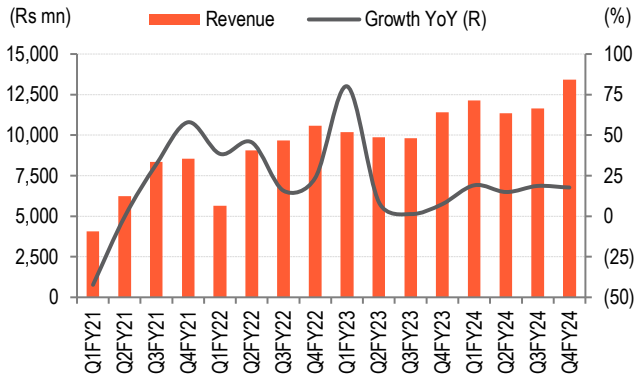
Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Revenues												
Consumer Durables	1,497	2,794	3,384	2,959	2,991	3,372	3,537	2,862	3,312	3,547	3,928	3,657
Growth YoY	75.1	71.0	28.1	32.3	99.7	20.7	4.5	(3.3)	10.7	5.2	11.1	27.8
Electricals	2,565	4,188	4,292	5,152	4,159	4,216	4,358	5,253	4,567	4,623	4,727	5,814
Growth YoY	38.8	45.1	18.1	32.5	62.1	0.7	1.6	2.0	9.8	9.6	8.5	10.7
Electronics	1,590	2,092	1,999	2,471	3,034	2,274	1,914	2,717	3,637	2,551	2,236	3,228
Growth YoY	15.5	22.3	(3.6)	1.8	90.8	8.7	(4.3)	10.0	19.9	12.2	16.9	18.8
Sunflame								569	632	617	763	730
EBIT												
Consumer Durables	(59)	85	96	50	38	97	(45)	(11)	9	(1)	117	48
Margin (%)	(3.9)	3.0	2.8	1.7	1.3	2.9	(1.3)	(0.4)	0.3	(0.0)	3.0	1.3
Electricals	254	421	355	555	283	228	397	478	290	383	429	595
Margin (%)	9.9	10.1	8.3	10.8	6.8	5.4	9.1	9.1	6.3	8.3	9.1	10.2
Electronics	207	392	338	431	429	333	222	325	585	370	287	405
Margin (%)	13.0	18.7	16.9	17.4	14.1	14.6	11.6	12.0	16.1	14.5	12.9	12.5
Sunflame								80	58	37	82	69
Margin (%)								14.1	9.2	6.0	10.8	9.4

Source: Company, BOBCAPS Research

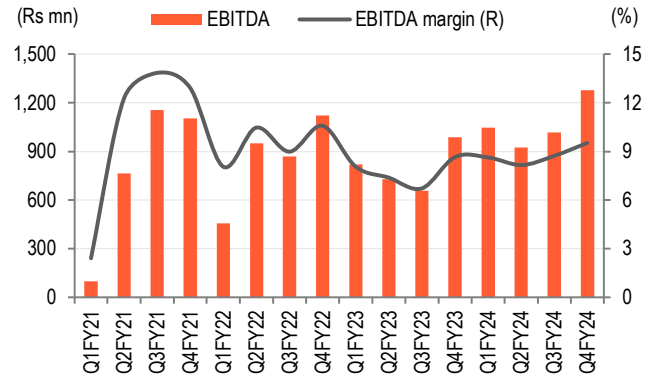
Key Metrics: Quarterly

Fig 3 – Revenue growth



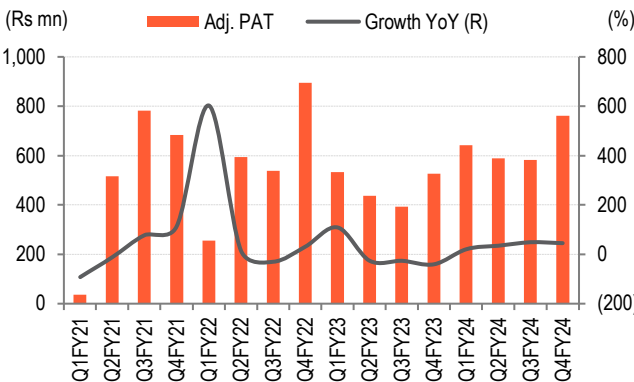
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



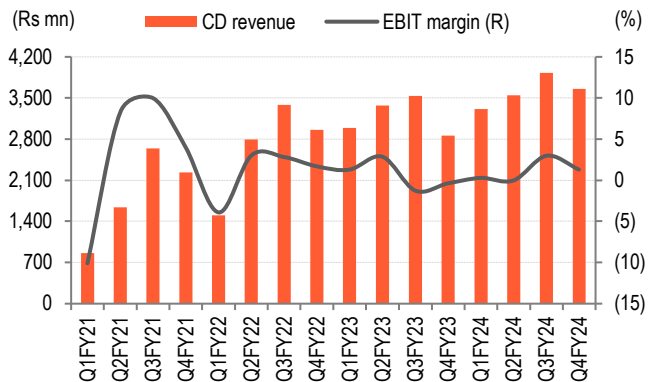
Source: Company, BOBCAPS Research

Fig 5 – PAT growth trend



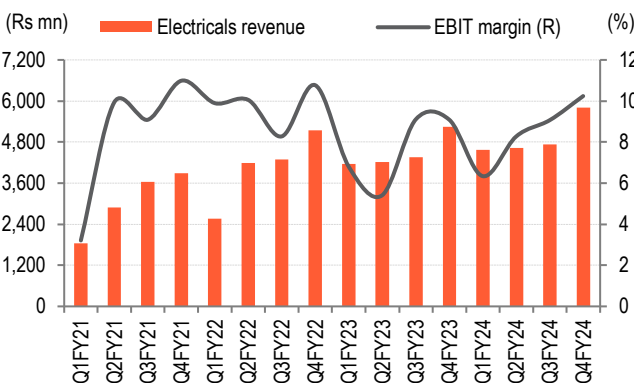
Source: Company, BOBCAPS Research

Fig 6 – Consumer Durables performance



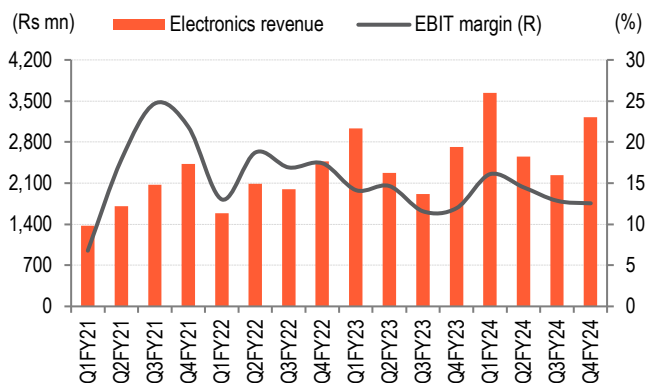
Source: Company, BOBCAPS Research

Fig 7 – Electricals business performance



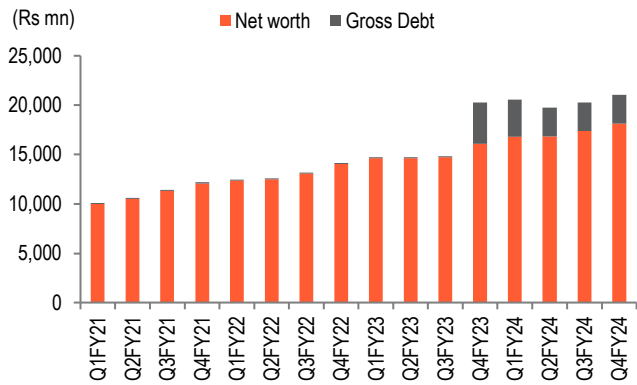
Source: Company, BOBCAPS Research

Fig 8 – Electronics business performance



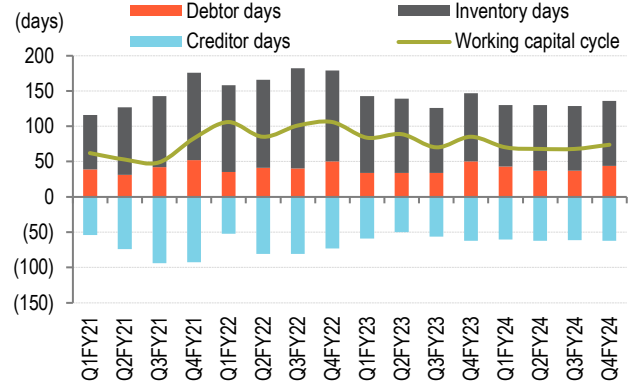
Source: Company, BOBCAPS Research

Fig 9 – Capital levels



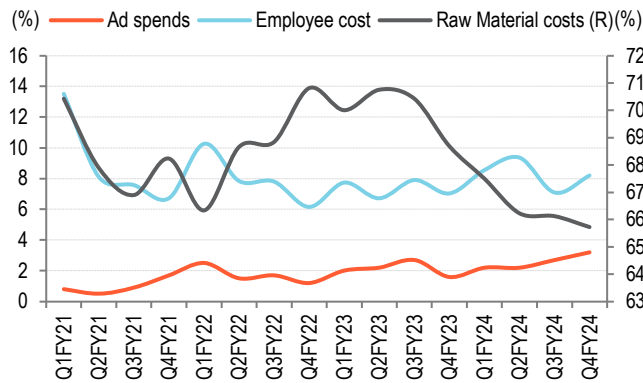
Source: Company, BOBCAPS Research

Fig 10 – Working capital cycle



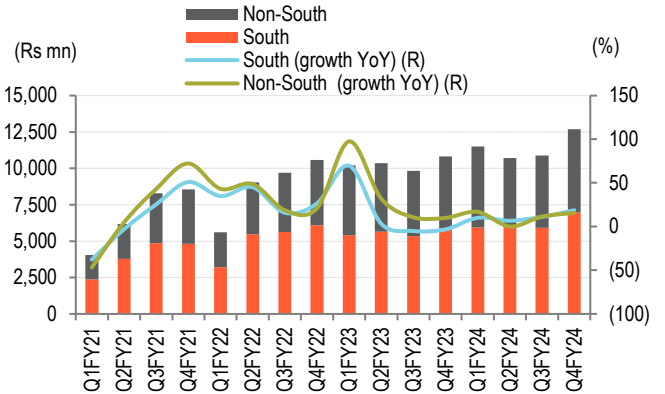
Source: Company, BOBCAPS Research

Fig 11 – Cost profile



Source: Company, BOBCAPS Research

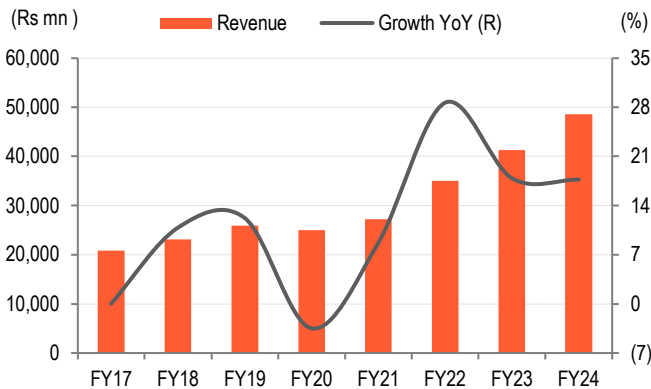
Fig 12 – Geographical revenue breakdown for India



Source: Company, BOBCAPS Research

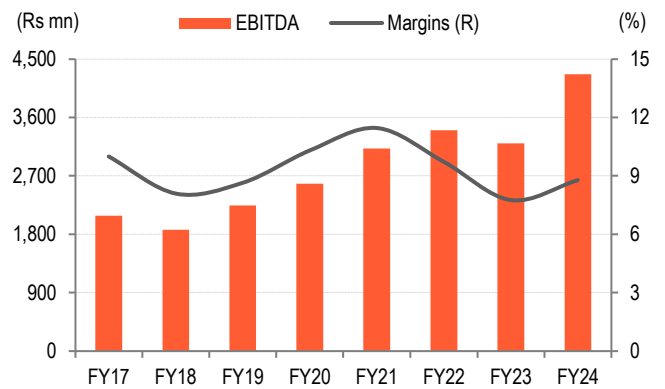
Key Metrics: Yearly

Fig 13 – Revenue growth



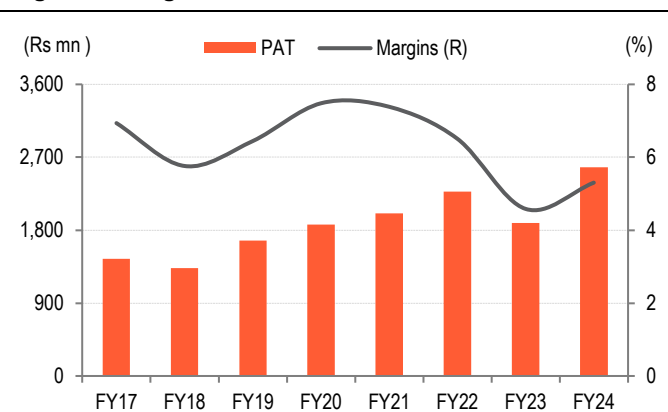
Source: Company, BOBCAPS Research

Fig 14 – EBITDA growth



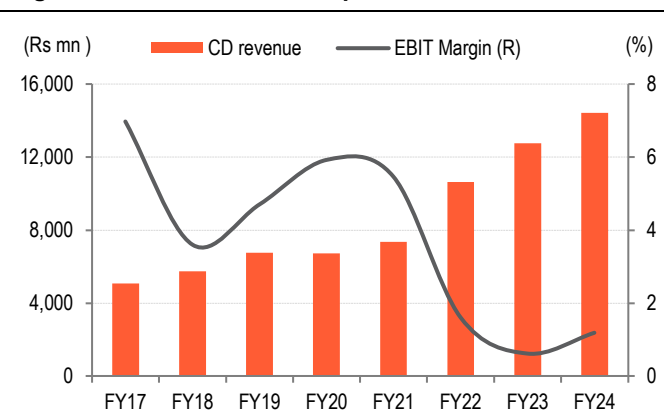
Source: Company, BOBCAPS Research

Fig 15 – PAT growth trend



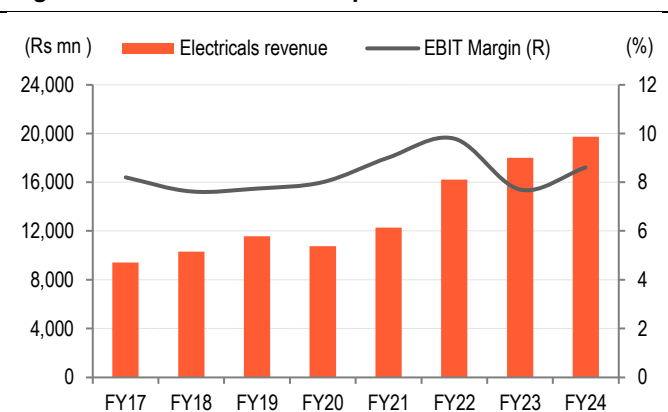
Source: Company, BOBCAPS Research

Fig 16 – Consumer Durables performance



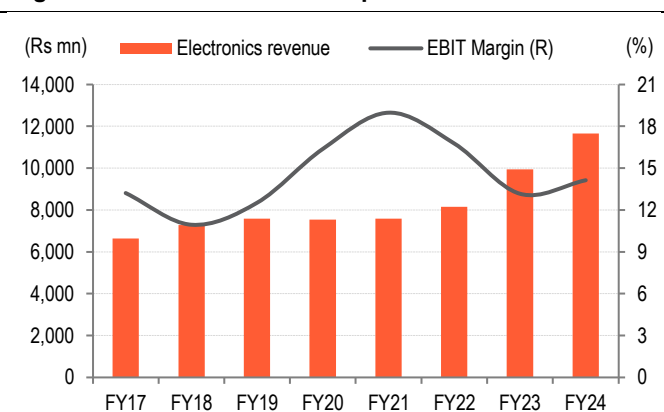
Source: Company, BOBCAPS Research

Fig 17 – Electricals business performance



Source: Company, BOBCAPS Research

Fig 18 – Electronics business performance



Source: Company, BOBCAPS Research

Earnings call highlights

Consumer Durables

- VGRD experienced robust demand in the CD segment (fans, water heaters and kitchen appliances), fuelled by the early arrival of summer in Q4FY24. This segment saw 29% YoY growth. With consumer interest on the rise and strategies in place to enhance margins, management anticipates the CD segment to outpace growth in its other categories
- Plans have been established recently for the kitchen segment, although the company acknowledges that its product offerings currently lack competitiveness. As a result, the initial focus may be on leveraging reduced costs to penetrate the market rather than maximising profits.

Fans

- There was significant growth in fans in Q4, boosted by a new launch in the premium BLDC (brushless direct current motor) segment in Q3, priced at ~Rs 5,000, which has performed well. This combined performance led to robust growth in fan sales in Q4. However, it is worth noting that other products like air coolers,

stabilisers, and inverters also experienced growth, attributed to the favourable summer season impacting all categories.

- In Q1, promising performance for fans was observed in April. However, growth in certain categories such as air coolers and voltage stabilisers outpaced that of fans, primarily due to intense summer conditions, particularly in South and East India. This led to increased purchases of air conditioners, subsequently benefiting stabilisers and air coolers. Also, fans demonstrated strong performance in the first month of the year.

TPW fans

- TPW (table pedestal wall) fans constitute 25-30% of the entire fan industry, contributing a similar proportion of revenue for the company. Previously, TPW fans were predominantly imported from China and Vietnam. However, there has been a significant shift towards domestic manufacturing, with most TPW fans now being produced within the country. Companies have established their own supply chains, aiming for self-sufficiency. By September or October of this financial year, management expects the majority, including premium TPW fans, to be manufactured in India, with only the premium segment being imported.
- TPW fans faced challenges a few years ago due to sudden bans on fan imports. Companies heavily reliant on imports encountered difficulties with TPW. However, with the strong support of domestic manufacturing, these challenges have been overcome. Additionally, VGRD is in the process of establishing its own factory for TPW, specifically to produce premium TPW fans in Hyderabad. This project is expected to be completed in the next 18 to 24 months.

Other segments

- **Electronics:** The Electronics segment, inclusive of stabilisers, inverters, and batteries, exhibited significant traction with revenue growth of 18.8% YoY. VGRD expects inverters and batteries to experience the most rapid growth. The company currently holds a prominent position in stabilisers and foresees growth in this sector aligning with industry trends.
- **Electricals:** In the electrical segment, comprising wires, pumps, switch gears and modular switches, growth of 10.7% YoY was recorded over Q4FY24.
- **Sunflame:** Sunflame experienced robust topline growth of 28.3% on a YoY basis in Q4, capitalising on various strategic initiatives implemented over the past year. The company expressed satisfaction with the initial signs of turnaround and performance as progress continues the integration process with functionality.

Other highlights

- **Geographical allocation:** In terms of geographies, a noteworthy trend emerged as the company observed 18.6% YoY growth in the South India market and a 15.8% YoY growth in the non-South market during Q4. This marked a significant departure from previous patterns, with the South markets demonstrating higher growth than the non-South markets, underscoring a robust commencement to the summer season in the southern regions of the country.

- **Margin expansion:** VGRD's gross margins continue to improve, with a YoY increase of 310bps and a QoQ increase of 40bps reported in Q4. The company achieved significant progress in addressing the gross margin graph throughout the year. Plans to expand in-house manufacturing are progressing well, especially with the recent commencement of commissioned production in the battery and kitchen appliances factories, anticipated to yield benefits in the forthcoming year.
- **Pricing actions:** VGRD is currently evaluating pricing actions in select products, alongside implementing additional strategic initiatives, with the aim of restoring EBITDA margins to the previously indicated range of 10-10.5%.

Balance sheet

- **Free cash flow:** The cash flow from operating activities (CFO) generation for FY24 was Rs 3.93bn, a decrease from Rs 4.24bn in FY23.
- **Profitability:** Over the last 12 months, the Return on Equity (ROE) was 14.2% and Return on Capital Employed (ROCE) 15.7%.
- **Net debt:** As of 31 Mar'24, net debt stood at Rs 2.03bn, a decline from the Rs 3.53bn recorded on 31 Mar'23. Notably, repayment of long-term debt associated with the Sunflame acquisition commenced in Apr'24.
- **Final dividend:** The board of directors proposed a final dividend of Rs 1.40 per equity share of Re. 1 for FY24.
- **Capex:** Management reiterated its guidance of incurring Rs 1bn of capex in FY25.

Valuation methodology

VGRD's dominance in South India is expanding swiftly into new territories, with fans and water heaters anticipated to drive growth in the Consumer Durables segment. With strategic shifts in focus for Sunflame, management believes the potential for success is high, likely resulting in a robust topline performance for VGRD.

Foreseeing enhanced margins and bolstered by management's resolve to implement fresh strategies, especially for Sunflame, which VGRD positions as a potential game changer, we have increased our P/E to 37x (from 30x), in line with its 5Y average. We maintain a HOLD rating due to ongoing challenges, including heightened sector competition and a lack of price competitiveness.

Key risks

Key upside/downside risks to our estimates are:

- Upside risk: Greater-than-expected growth in non-South India regions.
- Downside risk: Increased competition in the kitchen appliances segment, which may result in lower-than-expected growth for Sunflame.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.6	3,963	3,200	SELL
Havells India	HAVL IN	13.9	1,823	1,780	HOLD
Orient Electric	ORIENTEL IN	0.6	228	230	HOLD
Syrma SGS	SYRMA IN	0.9	413	420	HOLD
V-Guard Industries	VGRD IN	1.9	368	390	HOLD
Voltas	VOLT IN	5.2	1,297	1,260	HOLD

Source: BOBCAPS Research, NSE | Price as of 18 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	35,002	41,260	48,567	55,893	64,090
EBITDA	3,402	3,199	4,267	5,761	6,721
Depreciation	491	644	809	892	989
EBIT	2,911	2,555	3,458	4,870	5,731
Net interest inc./(exp.)	(79)	(162)	(395)	(198)	(143)
Other inc./(exp.)	108	164	340	408	490
Exceptional items	0	0	0	0	0
EBT	2,940	2,557	3,403	5,080	6,078
Income taxes	655	667	827	1,280	1,532
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,277	1,891	2,576	3,800	4,546
Adjustments	0	0	0	0	0
Adjusted net profit	2,277	1,891	2,576	3,800	4,546

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	4,880	4,885	5,500	8,422	9,657
Other current liabilities	1,166	1,814	2,983	3,432	3,936
Provisions	0	0	0	0	0
Debt funds	118	4,196	2,910	1,323	1,023
Other liabilities	732	2,097	2,078	2,391	2,742
Equity capital	432	432	434	434	434
Reserves & surplus	13,638	15,644	17,708	20,773	24,498
Shareholders' fund	14,070	16,076	18,142	21,207	24,932
Total liab. and equities	20,966	29,069	31,613	36,775	42,290
Cash and cash eq.	613	670	574	(2,302)	(1,843)
Accounts receivables	4,841	5,687	5,958	7,963	9,131
Inventories	8,596	7,674	8,118	13,016	15,803
Other current assets	1,152	1,021	1,724	1,984	2,275
Investments	0	0	0	0	0
Net fixed assets	4,842	5,683	5,131	5,739	6,250
CWIP	92	237	248	285	327
Intangible assets	200	6,822	8,334	8,334	8,334
Deferred tax assets, net	0	0	0	0	0
Other assets	631	1,274	1,525	1,755	2,013
Total assets	20,966	29,069	31,612	36,775	42,289

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	1,390	4,238	3,927	901	3,029
Capital expenditures	0	(1,012)	(1,274)	(1,500)	(1,500)
Change in investments	0	(6,615)	(200)	0	0
Other investing cash flows	(1,198)	(85)	(52)	46	51
Cash flow from investing	(1,198)	(7,712)	(1,526)	(1,454)	(1,449)
Equities issued/Others	0	1	0	0	0
Debt raised/repaid	(12)	1,349	(1,296)	(1,588)	(300)
Interest expenses	0	0	0	0	0
Dividends paid	(603)	1,912	(1,026)	(735)	(821)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(615)	3,262	(2,322)	(2,322)	(1,121)
Chg in cash & cash eq.	(423)	(212)	79	(2,876)	459
Closing cash & cash eq.	613	670	574	(2,302)	(1,843)

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	5.3	4.4	6.0	8.8	10.5
Adjusted EPS	5.3	4.4	6.0	8.8	10.5
Dividend per share	1.3	1.3	1.4	1.7	1.9
Book value per share	32.6	37.2	42.0	49.1	57.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	4.5	3.9	3.3	2.8	2.5
EV/EBITDA	46.7	49.7	37.2	27.6	23.6
Adjusted P/E	69.8	84.0	61.7	41.8	35.0
P/BV	11.3	9.9	8.8	7.5	6.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	77.5	73.9	75.7	74.8	74.8
Interest burden (PBT/EBIT)	101.0	100.1	98.4	104.3	106.1
EBIT margin (EBIT/Revenue)	8.3	6.2	7.1	8.7	8.9
Asset turnover (Rev./Avg TA)	7.2	7.3	9.5	9.7	10.3
Leverage (Avg TA/Avg Equity)	0.4	0.4	0.3	0.3	0.3
Adjusted ROAE	17.4	12.5	15.1	19.3	19.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	28.6	17.9	17.7	15.1	14.7
EBITDA	9.0	(6.0)	33.4	35.0	16.7
Adjusted EPS	13.4	(16.9)	36.2	47.5	19.7
Profitability & Return ratios (%)					
EBITDA margin	9.7	7.8	8.8	10.3	10.5
EBIT margin	8.3	6.2	7.1	8.7	8.9
Adjusted profit margin	6.5	4.6	5.3	6.8	7.1
Adjusted ROAE	17.4	12.5	15.1	19.3	19.7
ROCE	17.6	11.7	13.9	18.1	19.2
Working capital days (days)					
Receivables	45	47	44	52	52
Inventory	78	72	59	85	90
Payables	50	43	39	55	55
Ratios (x)					
Gross asset turnover	6.1	5.8	6.0	6.3	6.2
Current ratio	2.5	1.8	1.6	1.7	1.8
Net interest coverage ratio	36.9	15.8	8.7	24.5	40.0
Adjusted debt/equity	0.0	0.3	0.2	0.1	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**
 Brand Name: **BOBCAPS**
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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

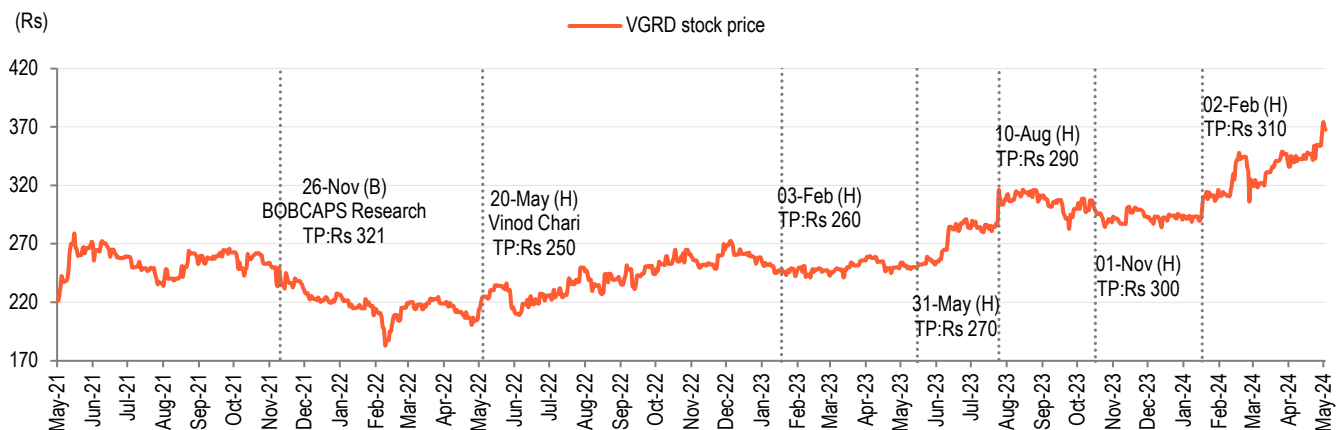
HOLD – Expected return from -6% to +15%

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

Analyst certification

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