

**HOLD**

TP: Rs 250 | ▲ 11%

**V-GUARD INDUSTRIES**

Consumer Durables

29 July 2022

**Margin blip in Q1**

- Q1 EBITDA margin hit by A&P spend and write-offs; ECD/electronics margins guided to recover to ~7%/16% in FY23
- Electronics (mainly stabilisers) posted muted 3Y revenue CAGR of 2%, while ECD growth came at the cost of margins
- Profitability in stabilisers and ECD will be key even as further non-South expansion is necessary to derisk revenue; maintain HOLD, TP Rs 250

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**Demand weakens but guidance upbeat:** Q1FY23 revenue at Rs 10bn grew at a 3Y CAGR of 13%. Demand has slowed since the second half of Q1, particularly for weather-sensitive products in the non-South region. Electronics, which remains a significant segment, has been muted with a 3Y revenue CAGR of just 2%, while electricals & consumer durables (ECD) segment growth has been impacted by weak demand for fans and pumps. However, management remains optimistic about a swift recovery fuelled by a favourable season, and has guided for a 10-15% increase in overall ECD volumes in FY23.

**Margin blip:** Q1 EBITDA margin was relatively muted at 8.1% (vs. 10.5% in Q4FY22), due to higher A&P spend at 2.1% of revenue (vs. 1.2% in Q4) and a Rs 100mn write-off for copper losses. Electronics margin (14.1%, -330bps QoQ) was impacted due to the inverter & battery business as well as an unfavourable product mix. Consumer durables margin (1.3%, -40bps QoQ) was hit by the rise in aluminium prices for fans. VGRD expects margins to return to normal by Q3 and anticipates ECD/electronics margins of 7%/15-16% in FY23. Adj. PAT came in at Rs 534mn (+109% YoY, -40% QoQ), with a flat 3Y CAGR.

**Softening of RM cost to offset need for price hikes:** VGRD raised prices by 2-2.5% in Q1FY23. Due to the recent moderation in RM prices, management does not see the need for major price hikes in the future (barring a few segments in ECD).

**Expansion beyond core market:** The company's efforts to expand its presence have been visible in recent quarters, with two-thirds of its distribution network now located outside the southern region. In Q1, it more than doubled revenue from non-South markets YoY with their share in the mix rising to 46.9% (vs. 43.2% in Q1FY22).

**Maintain HOLD:** VGRD is a leader in stabiliser segment, but margins remain under pressure despite good growth in end-user ACs. Profitability in the consumer durables segment has also been muted. We maintain HOLD with an unchanged TP of Rs 250, based on 35x FY24E EPS – a 7.5% discount to the stock's 4Y average.

**Key changes**

Target	Rating
◀ ▶	◀ ▶

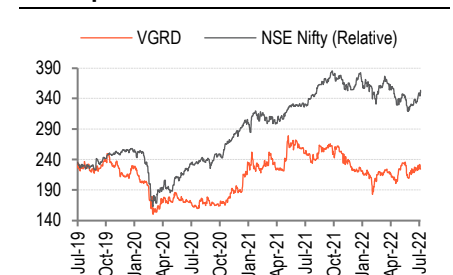
Ticker/Price	VGRD IN/Rs 224
Market cap	US\$ 1.2bn
Free float	44%
3M ADV	US\$ 1.0mn
52wk high/low	Rs 275/Rs 181
Promoter/FPI/DII	56%/12%/18%

Source: NSE | Price as of 28 Jul 2022

**Key financials**

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	34,982	40,229	44,496
EBITDA (Rs mn)	3,382	4,151	4,742
Adj. net profit (Rs mn)	2,277	2,732	3,089
Adj. EPS (Rs)	5.3	6.3	7.2
Consensus EPS (Rs)	5.3	6.2	7.1
Adj. ROAE (%)	17.4	18.0	17.7
Adj. P/E (x)	42.5	35.4	31.3
EV/EBITDA (x)	28.6	23.3	20.4
Adj. EPS growth (%)	13.4	20.0	13.0

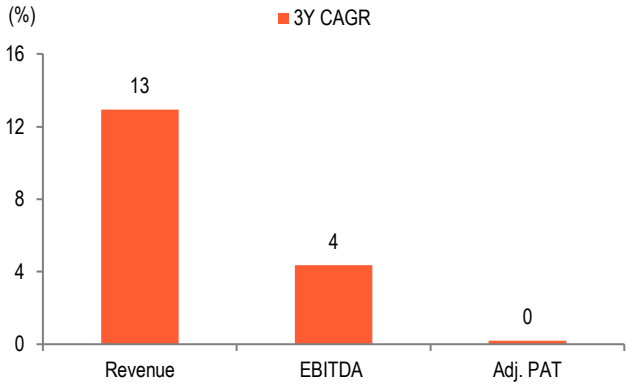
Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE

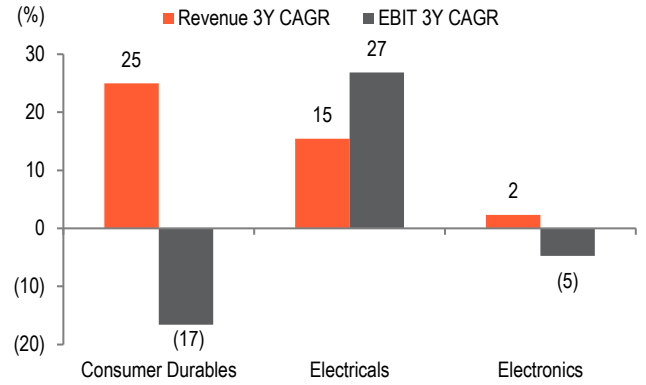


**Fig 1 – VGRD posts muted performance on 3Y CAGR basis**



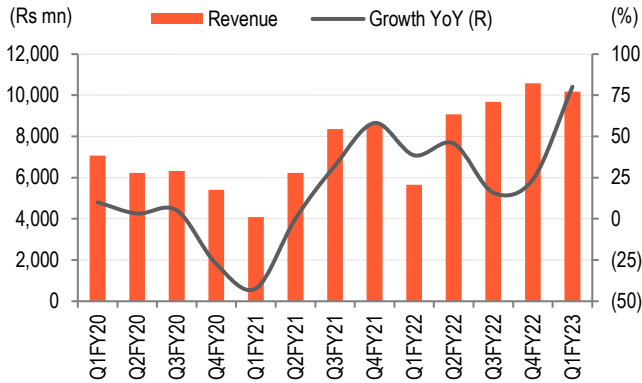
Source: Company, BOBCAPS Research

**Fig 2 – Good growth in consumer durables business but at the expense of margins**



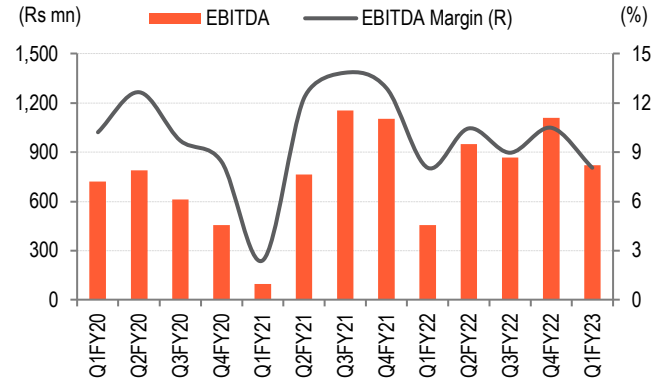
Source: Company, BOBCAPS Research

**Fig 3 – Q1 revenue growth impacted by demand slowdown in non-South region**



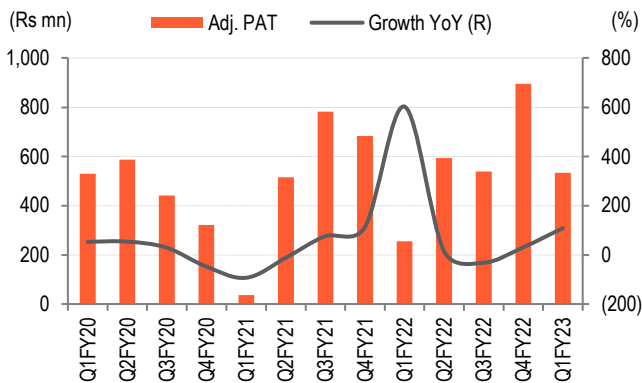
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA margin hit by higher A&P, write-off for copper...**



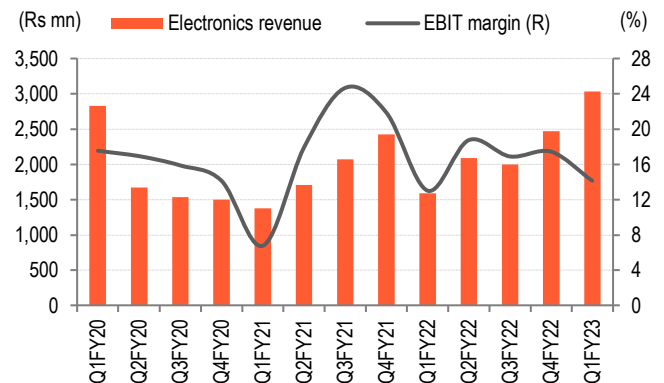
Source: Company, BOBCAPS Research

**Fig 5 – ...muting PAT growth**



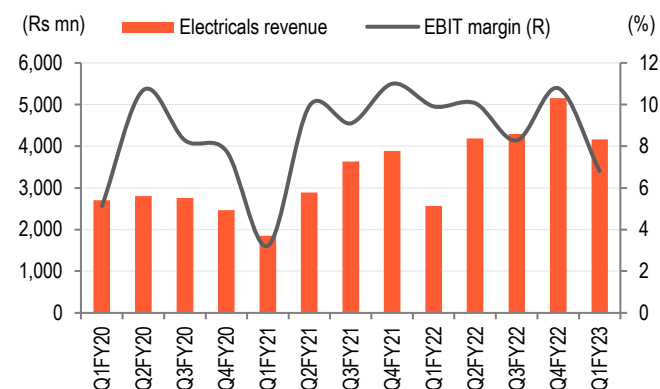
Source: Company, BOBCAPS Research

**Fig 6 – Electronics margin weakened by unfavourable product mix**



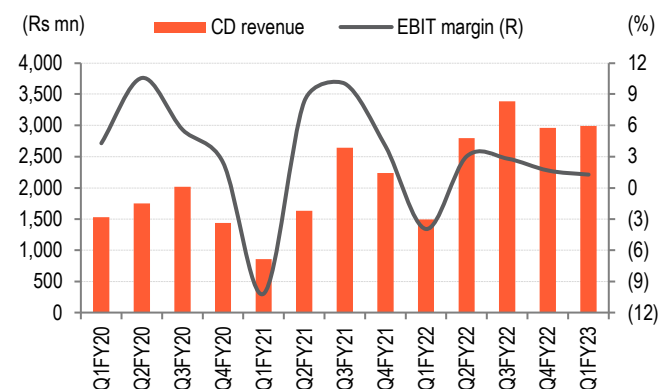
Source: Company, BOBCAPS Research

**Fig 7 – Electricals margin impacted due to lower pump sales**



Source: Company, BOBCAPS Research

**Fig 8 – Subdued performance in fans sapped consumer durables margin**



Source: Company, BOBCAPS Research

**Fig 9 – Quarterly performance**

Particulars (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	10,183	5,652	80.2	10,582	(3.8)
EBITDA	820	455	80.2	1,110	(26.1)
EBITDA margin (%)	8.1	8.1	0.2bps	10.5	(244bps)
Depreciation	137	113		129	
Interest	18	15		18	
Other Income	51	39		36	
PBT	717	366	95.8	1,000	(28.3)
Tax	183	111		104	
Adjusted PAT	534	255	109.3	896	(40.4)
Exceptional item					
Reported PAT	533	255	109.0	897	(40.6)
Adj. PAT margin (%)	5.2	4.5	73bps	8.5	(322bps)
EPS (Rs)	1.2	0.6	109.0	2.1	(40.4)

Source: Company, BOBCAPS Research

**Fig 10 – Segment performance**

(Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	3Y % CAGR
<b>Revenues</b>														
Consumer Durables	1,534	1,750	2,020	1,442	855	1,634	2,641	2,237	1,497	2,794	3,384	2,959	2,991	24.9
% of Sales	21.7	28.1	32.0	26.6	21.0	26.2	31.6	26.2	26.5	30.8	35.0	28.0	29.4	
Electricals	2,704	2,807	2,762	2,467	1,848	2,886	3,635	3,888	2,565	4,188	4,292	5,152	4,159	15.4
% of Sales	38.3	45.0	43.7	45.6	45.3	46.3	43.5	45.5	45.4	46.2	44.4	48.7	40.8	
Electronics	2,828	1,676	1,538	1,503	1,377	1,710	2,074	2,428	1,590	2,092	1,999	2,471	3,034	2.4
% of Sales	40.0	26.9	24.3	27.8	33.7	27.4	24.8	28.4	28.1	23.1	20.7	23.4	29.8	
<b>EBIT</b>														
Consumer Durables	66	185	113	35	(87)	136	264	89	(59)	85	96	50	38	(16.6)
Margin (%)	4.3	10.6	5.6	2.5	(10.2)	8.3	10.0	4.0	(3.9)	3.0	2.8	1.7	1.3	
Electricals	139	300	229	192	59	287	331	427	254	421	355	555	283	26.8
Margin (%)	5.1	10.7	8.3	7.8	3.2	9.9	9.1	11.0	9.9	10.1	8.3	10.8	6.8	
Electronics	496	284	244	213	93	306	512	531	207	392	338	431	429	(4.7)
Margin (%)	17.5	16.9	15.9	14.1	6.8	17.9	24.7	21.9	13.0	18.7	16.9	17.4	14.1	

Source: Company, BOBCAPS Research

## Valuation methodology

VGRD continues to lead the market in the stabiliser segment, but margins remain under pressure despite good growth in end-user ACs. Profitability in the consumer durables segment has also been muted. Further, despite efforts to broaden its presence, the company still derives more than half of its revenue from South India, which remains a risk. We maintain HOLD with an unchanged TP of Rs 250, based on 35x FY24E EPS – a 7.5% discount to the stock's four-year average.

**Fig 11 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	40,229	44,496	39,664	43,120	1.4	3.2
EBITDA	4,151	4,742	4,034	4,482	2.9	5.8
PAT	2,732	3,089	2,707	3,074	0.9	0.5
EPS	6.3	7.2	6.3	7.1	0.9	0.5
EBITDA margin (%)	10.3	10.7	10.2	10.4	15bps	26bps

Source: Company, BOBCAPS Research

**Fig 12 – Peer comparison**

Company	Rating	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Upside (%)	Revenue (Rs bn)				EBITDA (Rs bn)				EBITDA Margin (%)		
						FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E
CROMPTON	BUY	249	393	500	27	54	76	88	27	7.7	10.3	12.6	28	14.3	13.5	14.4
HAVL	BUY	783	1,250	1,500	20	139	158	179	13	17.6	21.1	25.4	20	12.6	13.3	14.2
ORIENT	HOLD	55	260	310	19	24	29	33	16	2.3	2.7	3.3	19	9.4	9.4	9.9

Source: Company, BOBCAPS Research

**Fig 13 – Peer comparison (contd.)**

Companies	PAT (Rs bn)				EPS (Rs)				RoE (%)			PE (x)		
	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	FY22	FY23E	FY24E
CROMPTON	5.9	6.8	8.8	22	9.3	10.8	14.0	22	27.0	25.1	26.4	42	36	28
HAVL	12.0	14.6	17.4	21	19.1	23.3	27.8	21	21.4	21.4	21.4	65	54	45
ORIENT	1.3	1.5	1.9	21	6.0	7.1	8.7	21	25.4	25.9	27.3	44	37	30

Source: Company, BOBCAPS Research

## Key risks

- A key upside risk to our estimates is faster growth in the non-South region.
- Continued margin pressure is a key downside risk.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,448	3,500	HOLD
Blue Star	BLSTR IN	1.2	999	1,200	HOLD
Crompton Greaves	CROMPTON IN	3.0	383	500	BUY
Dixon Technologies	DIXON IN	2.7	3,579	4,500	BUY
Havells India	HAVL IN	9.6	1,225	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	261	310	HOLD
Polycab India	POLYCAB IN	4.3	2,272	3,000	BUY
V-Guard Industries	VGRD IN	1.2	224	250	HOLD
Voltas	VOLT IN	4.0	971	1,250	BUY

Source: BOBCAPS Research, NSE | Price as of 28 Jul 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Total revenue</b>	<b>25,029</b>	<b>27,212</b>	<b>34,982</b>	<b>40,229</b>	<b>44,496</b>
EBITDA	2,580	3,121	3,382	4,151	4,742
Depreciation	294	386	491	623	753
EBIT	2,286	2,735	2,891	3,528	3,990
Net interest inc./(exp.)	(42)	(61)	(79)	(25)	(25)
Other inc./(exp.)	251	207	128	141	155
Exceptional items	0	0	0	0	0
EBT	2,496	2,881	2,940	3,643	4,119
Income taxes	613	862	655	918	1,038
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>1,871</b>	<b>2,008</b>	<b>2,277</b>	<b>2,732</b>	<b>3,089</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>1,871</b>	<b>2,008</b>	<b>2,277</b>	<b>2,732</b>	<b>3,089</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	3,051	4,747	4,880	6,062	6,705
Other current liabilities	910	1,050	1,166	1,341	1,484
Provisions	0	0	0	0	0
Debt funds	128	130	118	250	250
Other liabilities	505	710	732	834	916
Equity capital	428	430	432	432	432
Reserves & surplus	9,526	11,683	13,638	15,809	18,251
Shareholders' fund	9,955	12,113	14,070	16,241	18,682
<b>Total liab. and equities</b>	<b>14,549</b>	<b>18,750</b>	<b>20,966</b>	<b>24,728</b>	<b>28,037</b>
Cash and cash eq.	1,116	2,812	613	1,503	2,676
Accounts receivables	3,243	3,881	4,841	5,731	6,339
Inventories	4,790	6,315	8,596	9,919	10,972
Other current assets	1,456	1,003	1,152	1,325	1,465
Investments	0	0	0	0	0
Net fixed assets	2,748	3,913	4,842	5,219	5,466
CWIP	669	185	92	105	116
Intangible assets	96	129	200	200	200
Deferred tax assets, net	0	0	0	0	0
Other assets	431	513	631	726	803
<b>Total assets</b>	<b>14,549</b>	<b>18,750</b>	<b>20,966</b>	<b>24,728</b>	<b>28,037</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Cash flow from operations</b>	<b>2,983</b>	<b>3,695</b>	<b>1,390</b>	<b>2,326</b>	<b>2,826</b>
Capital expenditures	0	0	0	(1,000)	(1,000)
Change in investments	471	26	0	0	0
Other investing cash flows	(1,582)	383	(1,198)	(7)	(6)
<b>Cash flow from investing</b>	<b>(1,111)</b>	<b>409</b>	<b>(1,198)</b>	<b>(1,007)</b>	<b>(1,006)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(13)	2	(12)	132	0
Interest expenses	0	0	0	0	0
Dividends paid	(901)	(60)	(603)	(561)	(647)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(915)</b>	<b>(58)</b>	<b>(615)</b>	<b>(429)</b>	<b>(647)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>958</b>	<b>4,047</b>	<b>(423)</b>	<b>890</b>	<b>1,173</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,116</b>	<b>2,812</b>	<b>613</b>	<b>1,503</b>	<b>2,676</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	4.3	4.7	5.3	6.3	7.2
Adjusted EPS	4.3	4.7	5.3	6.3	7.2
Dividend per share	0.9	1.2	1.3	1.3	1.5
Book value per share	23.1	28.1	32.6	37.6	43.3

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	3.9	3.6	2.8	2.4	2.2
EV/EBITDA	37.5	31.0	28.6	23.3	20.4
Adjusted P/E	51.7	48.2	42.5	35.4	31.3
P/BV	9.7	8.0	6.9	6.0	5.2

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	75.0	69.7	77.5	75.0	75.0
Interest burden (PBT/EBIT)	109.2	105.3	101.7	103.3	103.2
EBIT margin (EBIT/Revenue)	9.1	10.0	8.3	8.8	9.0
Asset turnover (Rev./Avg TA)	9.1	7.0	7.2	7.7	8.1
Leverage (Avg TA/Avg Equity)	0.3	0.4	0.4	0.3	0.3
Adjusted ROAE	19.7	18.2	17.4	18.0	17.7

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(3.5)	8.7	28.6	15.0	10.6
EBITDA	15.0	21.0	8.4	22.7	14.3
Adjusted EPS	11.9	7.3	13.4	20.0	13.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.3	11.5	9.7	10.3	10.7
EBIT margin	9.1	10.0	8.3	8.8	9.0
Adjusted profit margin	7.5	7.4	6.5	6.8	6.9
Adjusted ROAE	19.7	18.2	17.4	18.0	17.7
ROCE	19.7	18.3	17.6	17.9	17.5
<b>Working capital days (days)</b>					
Receivables	47	52	51	52	52
Inventory	70	85	90	90	90
Payables	44	64	51	55	55
<b>Ratios (x)</b>					
Gross asset turnover	8.2	6.5	6.1	5.8	5.6
Current ratio	2.6	2.4	2.5	2.4	2.5
Net interest coverage ratio	54.9	44.8	36.7	141.1	159.6
Adjusted debt/equity	0.0	0.0	0.0	0.0	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.

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

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