

**HOLD**

TP: Rs 440 | ▼ 4%

**V-GUARD INDUSTRIES**

Consumer Durables

25 July 2024

## Summer products drive revenue

- Q1 saw a 22% YoY increase in topline, driven by CD and Electronics, fuelled by nationwide demand for cooling products amid a heatwave
- Electricals lagged with W&C declining from trade destocking, while Sunflame contracted amid subdued consumer sentiment
- We maintain our EPS for FY25E and increase FY26E by 6% as we roll forward valuations to Jun'26E. We raise our TP to Rs 440. HOLD

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**Exceeds estimates on all fronts:** VGRD kicked off Q1FY25 on a high note, benefitting from strong summer demand in the Consumer Durables sector, aided by the countrywide heatwave. Consolidated net revenue was Rs 14.8bn with robust YoY growth of 21.6%. VGRD saw double-digit growth YoY in the Consumer Durables segment and in Electronics. EBITDAM beat expectations at 10.5%, exceeding internal estimates by 130bps and consensus estimates by 80bps. APAT surged to Rs 990mn, reflecting a substantial 54% YoY increase.

**Consumer Durables and Electronics outshine:** In Q1, VGRD experienced robust double-digit revenue growth in its CD and Electronics segments, with Electronics leading the charge with a strong 41% YoY increase driven by high demand for AC stabilisers. Consumer Durables followed closely with 26% growth, boosted by strong demand for cooling products amid an intense summer nationwide. Electricals also grew 7% YoY despite challenges in W&C due to trade destocking caused by falling raw material prices. Conversely, Sunflame's revenue fell 7% due to subdued consumer demand for kitchen appliances. Management remains optimistic about the strong start to the year, forecasting continued growth momentum in FY25.

**Regional revenue surge:** Across various geographical regions, strong performance has been evident for VGRD. The non-South India market recorded a significant 30% increase in revenue compared to the previous year, highlighting robust expansion. Similarly, the South market achieved notable growth with revenue increasing 17% YoY. For the first time ever, contributions from the non-South market surpassed 50% of total revenue, underscoring the increased significance of other regions within VGRD's revenue mix.

**Valuation outlook:** We maintain our FY25E EPS and raise our FY26E EPS by 6% as we expect VGRD's commitment to new strategies, particularly for Sunflame, to improve margins. We roll forward valuations to Jun'26E, raise our TP to Rs 440 (from Rs 390). However, we maintain HOLD due to ongoing challenges like increased competition and pricing issues and continue to value the stock at FY26E P/E of 37x, in line with the 5Y average.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VGRD IN/Rs 460
Market cap	US\$ 2.4bn
Free float	44%
3M ADV	US\$ 3.8mn
52wk high/low	Rs 528/Rs 276
Promoter/FPI/DII	56%/13%/19%

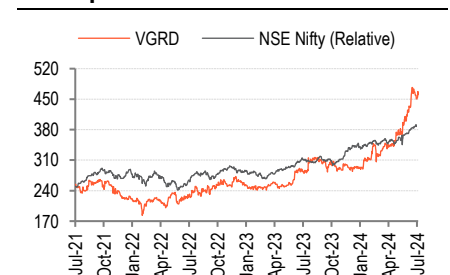
Source: NSE | Price as of 25 Jul 2024

## Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	48,567	55,893	65,108
EBITDA (Rs mn)	4,267	5,761	6,904
Adj. net profit (Rs mn)	2,576	3,800	4,822
Adj. EPS (Rs)	6.0	8.8	11.2
Consensus EPS (Rs)	6.0	8.4	10.2
Adj. ROAE (%)	15.1	19.3	20.8
Adj. P/E (x)	77.2	52.3	41.2
EV/EBITDA (x)	46.6	34.5	28.8
Adj. EPS growth (%)	36.2	47.5	26.9

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

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

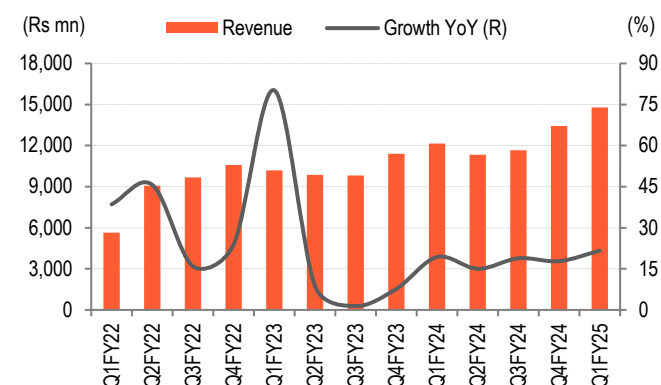
Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	14,771	12,148	21.6	13,428	10.0
EBITDA	1,558	1,048	48.7	1,279	21.8
EBITDA Margin (%)	10.5	8.6	190bps	9.5	100bps
Depreciation	217	198		222	
Interest	86	109		99	
Other Income	69	118		49	
PBT	1,324	859	54.1	1,006	31.5
Tax	334	217		245	
Adjusted PAT	990	642	54.1	762	29.9
Exceptional item	-	-		-	
Reported PAT	990	642	54.1	762	29.9
Adj. PAT Margin (%)	6.7	5.3	140bps	5.7	100bps
EPS (Rs)	2.3	1.5	54.1	1.8	29.9

Source: Company, BOBCAPS Research

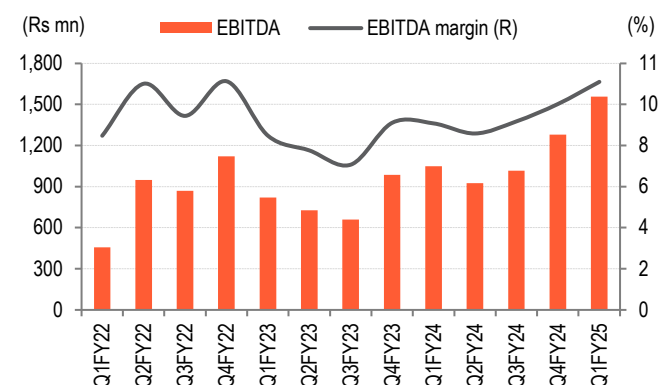
**Fig 2 – Segmental performance**

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
<b>Revenues</b>													
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	4,176
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	26.1
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	4,877
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	6.8
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	5,131
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	41.1
Sunflame								569	632	617	763	730	587
<b>EBIT</b>													
Consumer Durables	(59)	85	96	50	38	97	(45)	(11)	9	(1)	117	129	217
Margin (%)	(3.9)	3.0	2.8	1.7	1.3	2.9	(1.3)	(0.4)	0.3	(0.0)	3.0	3.5	5.2
Electricals	254	421	355	555	283	228	397	478	290	383	429	724	492
Margin (%)	9.9	10.1	8.3	10.8	6.8	5.4	9.1	9.1	6.3	8.3	9.1	12.5	10.1
Electronics	207	392	338	431	429	333	222	325	585	370	287	483	1,035
Margin (%)	13.0	18.7	16.9	17.4	14.1	14.6	11.6	12.0	16.1	14.5	12.9	15.0	20.2
Sunflame								80	58	37	82	73	27
Margin (%)								14.1	9.2	6.0	10.8	10.0	4.7

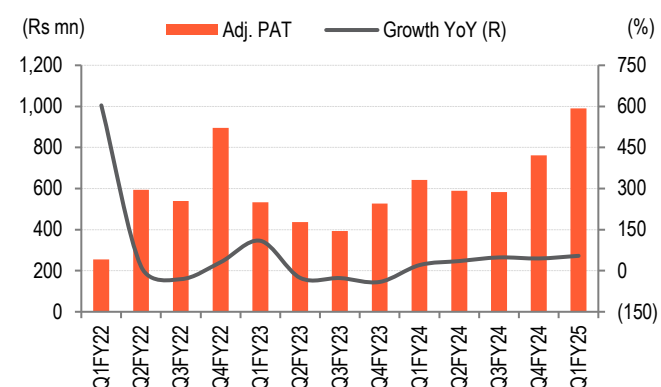
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth**

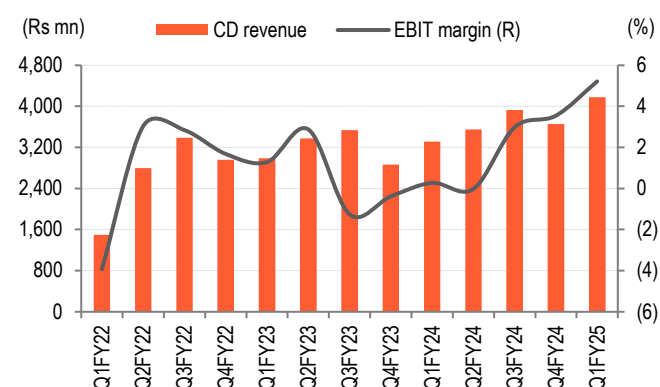
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth trend**

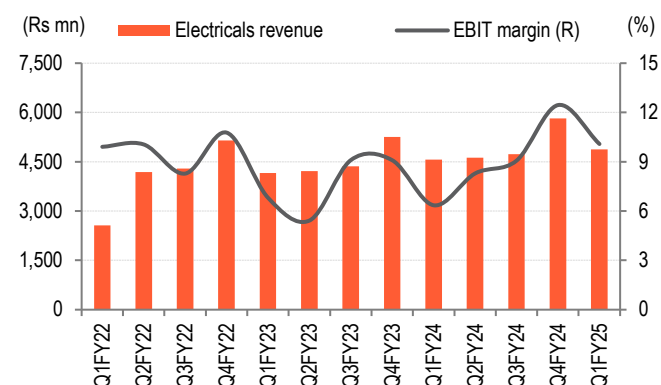
Source: Company, BOBCAPS Research

**Fig 5 – PAT growth trend**

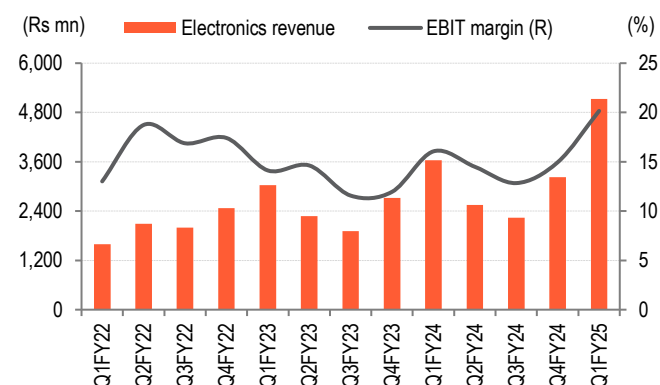
Source: Company, BOBCAPS Research

**Fig 6 – Consumer Durables performance**

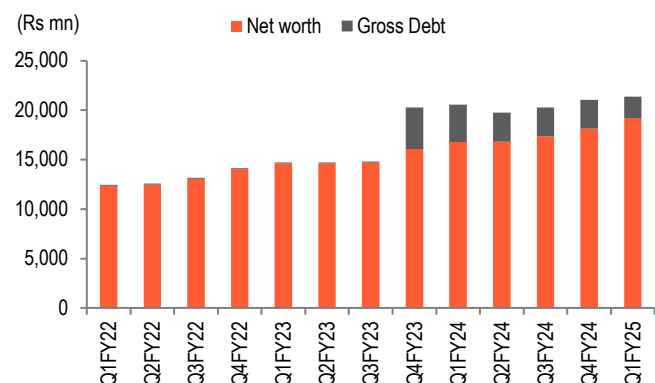
Source: Company, BOBCAPS Research

**Fig 7 – Electricals business performance**

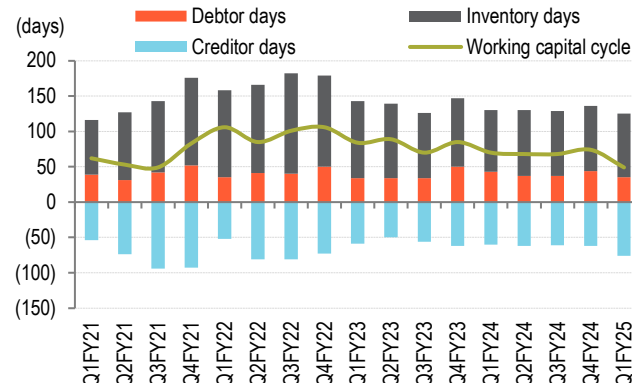
Source: Company, BOBCAPS Research

**Fig 8 – Electronics business performance**

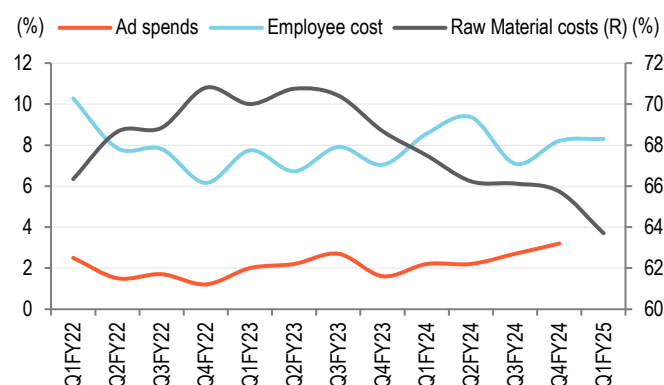
Source: Company, BOBCAPS Research

**Fig 9 – Capital levels**

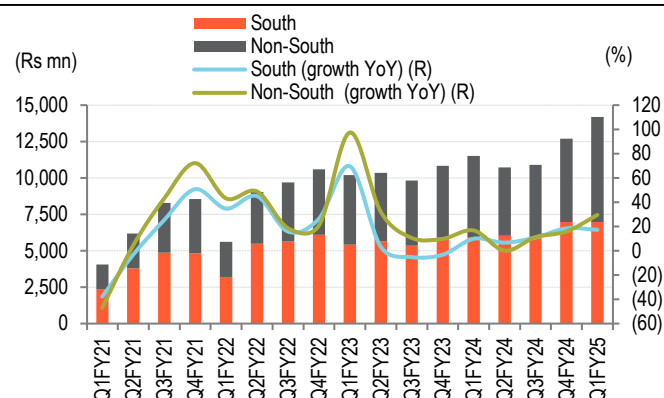
Source: Company, BOBCAPS Research

**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

- In Q1FY25, VGRD saw strong demand in the CD segment, particularly for fans, driven by soaring temperatures nationwide. This segment achieved 26% YoY revenue growth, prompting management to project continued outperformance relative to its other categories, buoyed by increasing consumer interest and strategic margin-enhancement initiatives.
- Fans:** Fan sales showed strong growth, supported by ongoing price increases driven by copper and aluminum costs. Margins improved through effective management of input costs. In the last year, VGRD increased prices by 2%, with an additional 2% in the current quarter. The fan market remains highly competitive; most price hikes are tied to commodity prices rather than organic profit increases.

### Other segments

- Electronics:** The Electronics segment, encompassing stabilisers, inverters, and batteries, saw substantial growth with a 41% YoY increase in revenue. The company achieved enhanced gross margins in Q1 due to robust sales of summer-

oriented products. Looking ahead to future quarters, it is confident of maintaining these margins despite expected changes in product mix, supported by lower aluminum and copper costs observed in Jun. It foresees potential price adjustments in the coming months to ensure continued profitability.

- **Electricals:** In the Electricals segment, which includes wires, pumps, switchgears, and modular switches, the company's revenue grew 7% YoY. The wires category, the largest within this segment, was affected by trade destocking following a decrease in copper prices in Jun'24.
- **Sunflame:** Sunflame reported a 7% YoY decline in its topline, reflecting soft performance that aligns closely with the company's forecast and plan. The kitchen industry overall has been experiencing subdued demand in recent quarters. Recognising the need to revive growth, the company is actively pursuing such measures as functional integration and accelerated sales initiative.
- **Gross margin:** Sunflame continues to maintain strong gross margin in its business. However, EBIT margin has been impacted by increased advertising and promotional (A&P) expenses.

### Other highlights

- **Geographical allocation:** Across various geographical regions, all areas have shown strong performance. Specifically, non-South India markets experienced significant growth with a 30% increase in revenue compared to the previous year, demonstrating robust expansion. The South market also performed well, achieving 17% YoY revenue growth. The contribution from the non-South market now exceeds 50% of VGRD's total revenue for this quarter, highlighting its growing importance within the company's overall revenue mix.
- **Gross margin:** Gross margin continued to strengthen, bolstered by declining commodity prices and effective pricing strategies, resulting in a 380bps YoY improvement to 36.3% this quarter. VGRD attributed this enhancement to pricing adjustments, reduced input costs, and improved product mix. The margin recovery phase is now largely finalised, with ongoing expectations for further improvement driven by manufacturing efficiencies, premium product offerings and scale advantages within the Consumer Durables segment.
- **Debt repayment:** Effective working capital management has significantly bolstered robust cash flows for the company. In Apr, it began repaying the loans taken for the Sunflame acquisition, with one fourth of the loan already repaid. Another one fourth is scheduled for repayment by the end of Jul, aligning with its planned repayment schedule. VGRD remains on track to fulfill its repayment commitments as outlined.
- **Pricing actions:** VGRD implemented price increases totalling 2% last quarter and an additional 2% this quarter, reflecting an ongoing strategy influenced by commodity price fluctuations. This approach is anticipated to continue as necessary based on market conditions and raw material costs.
- **Cash conversion cycle:** VGRD reduced the working capital cycle to 49 days from 74 days in the previous year, largely due to a significant decrease in receivable days. This reduction is partly a result of the robust season, prompting timely action.

Both May and Jun experienced heightened activity on the payable side, leading to increased purchasing volumes compared to typical levels.

- **Increased other expenses:** According to management, several factors led to a 39% YoY increase in other expenses, expanding by 980bps YoY. The rise includes higher A&P expenses, additional factory-related costs incorporated into other expenses, and increased manufacturing expenses attributed in part to one-time expenditures. Also, there has been a significant uptick in freight and warranty costs, especially notable in the electronics and durables sectors, which are experiencing substantial growth.

#### **Balance sheet**

- **Free cash flow:** The cash flow from operating activities (CFO) generation for FY24 was Rs 3.70bn, vs Rs 2.10bn in Q1FY24.
- **Profitability:** Over the last 12 months, the Return on Equity (ROE) was 15.2% and Return on Capital Employed (ROCE) 17.7%.
- **Net debt:** As of 30 June 2024, net debt stood at Rs 1.95bn, and repayment of long-term debt pertaining to the Sunflame acquisition started from Apr'24.
- **Capex:** Management reiterated its guidance of incurring Rs 1bn of capex in FY25, and this will be same for the next two to three years.

## Valuation methodology

We maintain our FY25E EPS and raise our FY26E EPS by 6% as we anticipate improved margins due to management's commitment to new strategies, particularly for Sunflame. We roll forward valuations to Jun'26E, raising our TP to Rs 440 (from Rs 390). However, we maintain our HOLD rating due to ongoing challenges like increased competition and pricing issues and continue to value the stock at an unchanged FY26E P/E of 37x, in line with the 5Y average.

**Fig 13 – Revised estimates**

Particulars (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	55,893	65,108	75,180	55,893	64,090	NA	0.0	1.6	NA
EBITDA	5,761	6,904	8,266	5,761	6,721	NA	0.0	2.7	NA
PAT	3,800	4,822	5,861	3,800	4,546	NA	0.0	6.1	NA
EPS (Rs)	8.8	11.2	13.6	8.8	10.5	NA	0.0	6.1	NA
EBITDA Margin (%)	10.3	10.6	11.0	10.3	10.5	NA	0bps	10bps	NA

Source: Company, BOBCAPS Research

## Key risks

Key upside/downside risks to our estimates are:

- Greater-than-expected growth in non-South India regions.
- 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	FY24P	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>41,260</b>	<b>48,567</b>	<b>55,893</b>	<b>65,108</b>	<b>75,180</b>
EBITDA	3,199	4,267	5,761	6,904	8,266
Depreciation	644	809	892	937	1,072
EBIT	2,555	3,458	4,870	5,967	7,193
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	5,080	6,345	7,712
Income taxes	667	827	1,280	1,523	1,851
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>1,891</b>	<b>2,576</b>	<b>3,800</b>	<b>4,822</b>	<b>5,861</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>1,891</b>	<b>2,576</b>	<b>3,800</b>	<b>4,822</b>	<b>5,861</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	4,885	5,500	8,422	9,811	11,329
Other current liabilities	1,814	2,983	3,432	3,998	4,617
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	3,216
Equity capital	432	434	434	434	434
Reserves & surplus	15,644	17,708	20,773	24,773	29,813
Shareholders' fund	16,076	18,142	21,207	25,208	30,248
<b>Total liab. and equities</b>	<b>29,069</b>	<b>31,613</b>	<b>36,775</b>	<b>42,825</b>	<b>50,132</b>
Cash and cash eq.	670	574	(2,302)	(1,830)	406
Accounts receivables	5,687	5,958	7,963	9,276	10,711
Inventories	7,674	8,118	13,016	16,054	18,538
Other current assets	1,021	1,724	1,984	2,312	2,669
Investments	0	0	0	0	0
Net fixed assets	5,683	5,131	5,739	6,302	6,729
CWIP	237	248	285	332	383
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
<b>Total assets</b>	<b>29,069</b>	<b>31,612</b>	<b>36,775</b>	<b>42,824</b>	<b>50,131</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>4,238</b>	<b>3,927</b>	<b>901</b>	<b>3,036</b>	<b>4,794</b>
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
<b>Cash flow from investing</b>	<b>(7,712)</b>	<b>(1,526)</b>	<b>(1,454)</b>	<b>(1,442)</b>	<b>(1,437)</b>
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
<b>Cash flow from financing</b>	<b>3,262</b>	<b>(2,322)</b>	<b>(2,322)</b>	<b>(1,121)</b>	<b>(1,121)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(212)</b>	<b>79</b>	<b>(2,876)</b>	<b>472</b>	<b>2,236</b>
<b>Closing cash &amp; cash eq.</b>	<b>670</b>	<b>574</b>	<b>(2,302)</b>	<b>(1,830)</b>	<b>406</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	4.4	6.0	8.8	11.2	13.6
Adjusted EPS	4.4	6.0	8.8	11.2	13.6
Dividend per share	1.3	1.4	1.7	1.9	1.9
Book value per share	37.2	42.0	49.1	58.3	70.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	4.8	4.1	3.6	3.1	2.6
EV/EBITDA	62.2	46.6	34.5	28.8	24.1
Adjusted P/E	105.2	77.2	52.3	41.2	33.9
P/BV	12.4	11.0	9.4	7.9	6.6

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	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	104.3	106.3	107.2
EBIT margin (EBIT/Revenue)	6.2	7.1	8.7	9.2	9.6
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	19.3	20.8	21.1

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	17.9	17.7	15.1	16.5	15.5
EBITDA	(6.0)	33.4	35.0	19.8	19.7
Adjusted EPS	(16.9)	36.2	47.5	26.9	21.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.8	8.8	10.3	10.6	11.0
EBIT margin	6.2	7.1	8.7	9.2	9.6
Adjusted profit margin	4.6	5.3	6.8	7.4	7.8
Adjusted ROAE	12.5	15.1	19.3	20.8	21.1
ROCE	11.7	13.9	18.1	20.2	20.7

### Working capital days (days)

Receivables	47	44	52	52	52
Inventory	72	59	85	90	90
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	24.5	44.9	76.6
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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**BUY** – Expected return >+15%

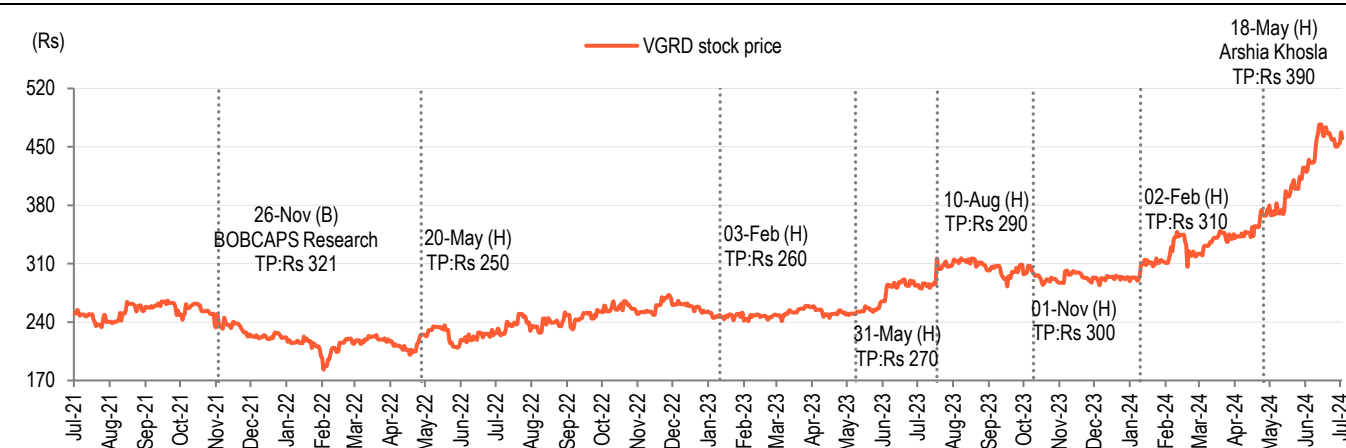
**HOLD** – Expected return from -6% to +15%

**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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