

HOLD

TP: Rs 310 | ▼ 0%

V-GUARD INDUSTRIES

Consumer Durables

02 February 2024

In-line quarter

- Q3 topline up 19% YoY on low base but consumer demand still soft; margins expand on lower input prices
- Management guiding for 15% revenue growth and 9-9.5% EBITDA margin in FY24
- We adjust our FY24/FY25/FY26 EPS by -21%/-2%/+3% and roll over to a revised TP of Rs 310 (vs. Rs 300); retain HOLD

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Results in line: Despite tepid demand for consumer durables, VGRD's topline grew 19% YoY to Rs 11.7bn (11% YoY ex-Sunflame) as the company benefited from a low base quarter. Gross and EBITDA margins grew 460bps YoY and 200bps YoY respectively to 33.8% and 8.7%. The disparity in margin expansion was largely due to lower input costs but higher advertising spend amid slower demand. Management expects to clock 15% revenue growth and 9-9.5% EBITDA margins in FY24.

CD segment gearing up for summer: VGRD's consumer durables (CD) segment saw subdued 11% YoY growth as green shoots of demand were visible only towards the end of the quarter. EBIT margin expanded 430bps YoY to 3%, pulling the segment out of a yearlong margin lull. Management expects strong demand in the upcoming summer season to fuel topline growth for the segment in the short term. The battery and kitchen manufacturing units are also due to start production from Q4FY24, which could lend further impetus to growth.

Growth across geographies: Both the company's south and non-south markets grew ~11% YoY, and management continues to broaden its presence in the latter. The two geographies contributed 55% and 45% of the standalone topline respectively.

Sunflame picking up: Sunflame clocked Rs 763mn in revenue in Q3, an increase of 2% YoY over pre-acquisition numbers, and delivered a double-digit EBIT margin despite soft consumer demand. The company continues to increase its presence in the modern trade and e-commerce channels, besides gaining share in the underpenetrated southern region. VGRD will commence loan repayment of the Sunflame acquisition from Q1FY25.

Maintain HOLD: Though the quarter was largely in line, the kitchen appliances industry continues to suffer from headwinds in the form of rising inflation and intensifying competition. We adjust our FY24/FY25/FY26 EPS estimates by -21%/-2%/+3% and roll valuations forward to Dec'25E to arrive at a revised TP of Rs 310 (vs. Rs 300). We continue to value the stock at a 30x P/E multiple – 15% discount to the 3Y average – and maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

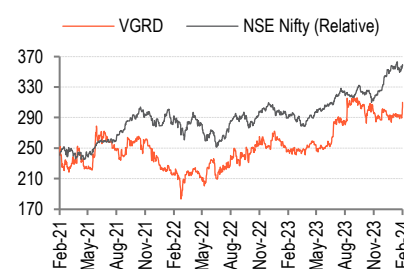
Ticker/Price	VGRD IN/Rs 310
Market cap	US\$ 1.6bn
Free float	44%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 335/Rs 238
Promoter/FPI/DII	56%/13%/19%

Source: NSE | Price as of 2 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	41,260	49,776	56,141
EBITDA (Rs mn)	3,199	4,476	5,903
Adj. net profit (Rs mn)	1,891	2,732	3,765
Adj. EPS (Rs)	4.4	6.3	8.7
Consensus EPS (Rs)	4.4	6.6	8.4
Adj. ROAE (%)	12.5	16.0	19.1
Adj. P/E (x)	70.9	49.0	35.6
EV/EBITDA (x)	41.9	29.9	22.7
Adj. EPS growth (%)	(16.9)	44.5	37.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – Quarterly performance

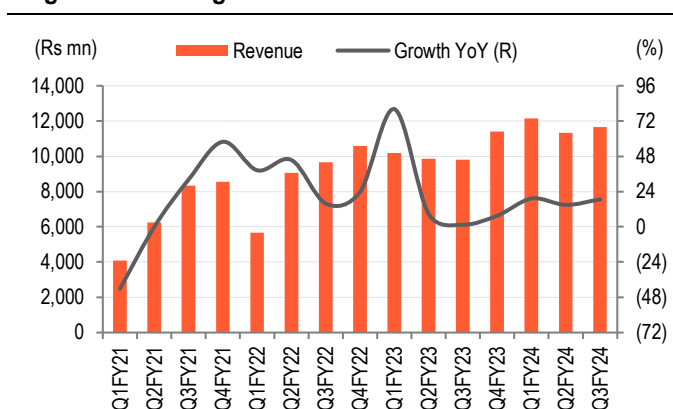
Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	11,654	9,808	18.8	11,338	2.8	35,139	29,853	17.7
EBITDA	1,016	659	54.3	925	9.9	2,989	2,206	35.5
EBITDA Margin (%)	8.7	6.7	200bps	8.2	60bps	8.5	7.4	110bps
Depreciation	191	167		198		587	454	
Interest	94	24		93		296	60	
Other Income	32	60		142		291	144	
PBT	763	528	44.3	775	(1.7)	2,397	1,837	30.5
Tax	180	136		186		583	473	
Adjusted PAT	582	393	48.2	590	(1.2)	1,814	1,363	33.1
Reported PAT	582	393	48.2	590	(1.2)	1,814	1,363	33.1
Adj. PAT Margin (%)	5.0	4.0	100bps	5.2	(20bps)	5.2	4.6	60bps
EPS (Rs)	1.3	0.9	48.0	1.4	(1.2)	4.2	3.2	32.9

Source: Company, BOBCAPS Research

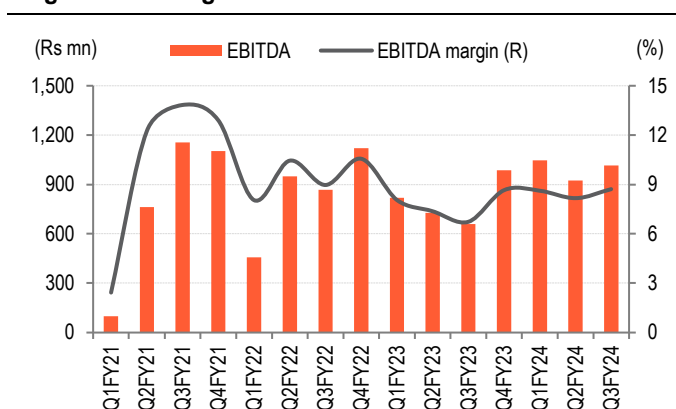
Fig 2 – Segmental performance

(Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Revenue													
Consumer Durables	2,641	2,237	1,497	2,794	3,384	2,959	2,991	3,372	3,537	2,862	3,312	3,547	3,928
Growth YoY (%)	30.8	55.2	75.1	71.0	28.1	32.3	99.7	20.7	4.5	(3.3)	10.7	5.2	11.1
Electricals	3,635	3,888	2,565	4,188	4,292	5,152	4,159	4,216	4,358	5,253	4,567	4,623	4,727
Growth YoY (%)	31.6	57.6	38.8	45.1	18.1	32.5	62.1	0.7	1.6	2.0	9.8	9.6	8.5
Electronics	2,074	2,428	1,590	2,092	1,999	2,471	3,034	2,274	1,914	2,717	3,637	2,551	2,236
Growth YoY (%)	34.9	61.5	15.5	22.3	(3.6)	1.8	90.8	8.7	(4.3)	10.0	19.9	12.2	16.9
Sunflame										569	632	617	763
EBIT													
Consumer Durables	264	89	(59)	85	96	50	38	97	(45)	(11)	9	(1)	117
Margin (%)	10.0	4.0	(3.9)	3.0	2.8	1.7	1.3	2.9	(1.3)	(0.4)	0.3	(0.0)	3.0
Electricals	331	427	254	421	355	555	283	228	397	478	290	383	429
Margin (%)	9.1	11.0	9.9	10.1	8.3	10.8	6.8	5.4	9.1	9.1	6.3	8.3	9.1
Electronics	512	531	207	392	338	431	429	333	222	325	585	370	287
Margin (%)	24.7	21.9	13.0	18.7	16.9	17.4	14.1	14.6	11.6	12.0	16.1	14.5	12.9
Sunflame										80	58	37	82
Margin (%)										14.1	9.2	6.0	10.8

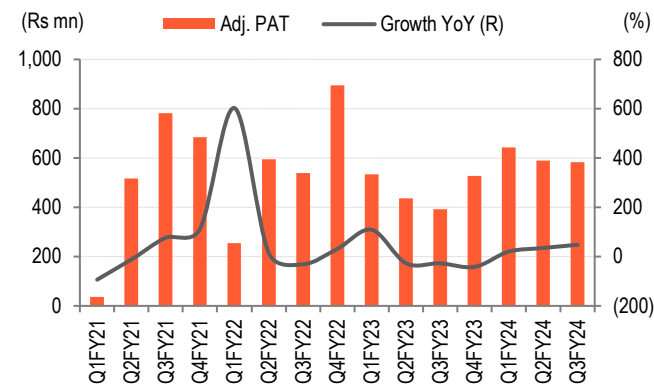
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend

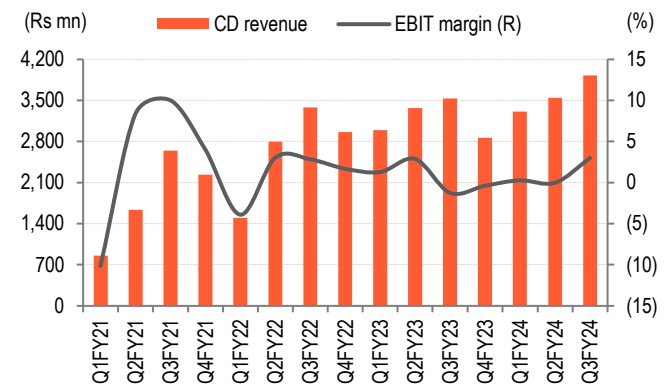
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend

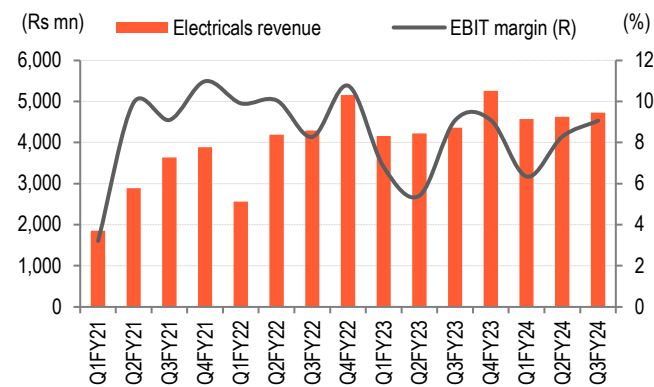
Source: Company, BOBCAPS Research

Fig 5 – PAT growth trend

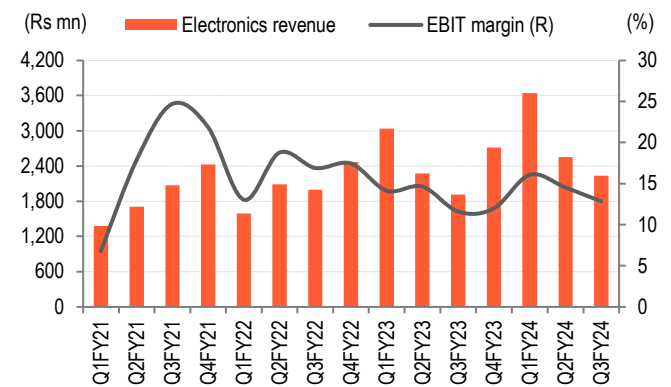
Source: Company, BOBCAPS Research

Fig 6 – Consumer durables performance

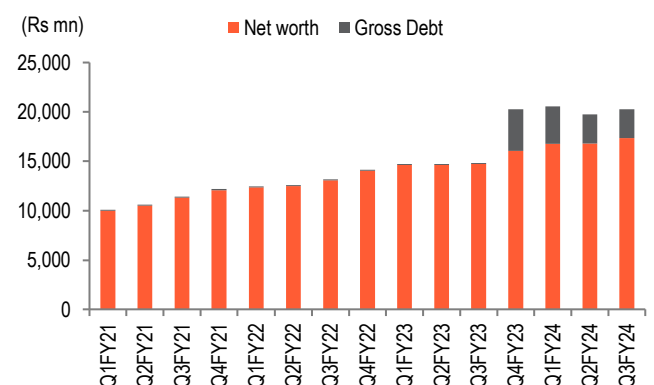
Source: Company, BOBCAPS Research

Fig 7 – Electricals business performance

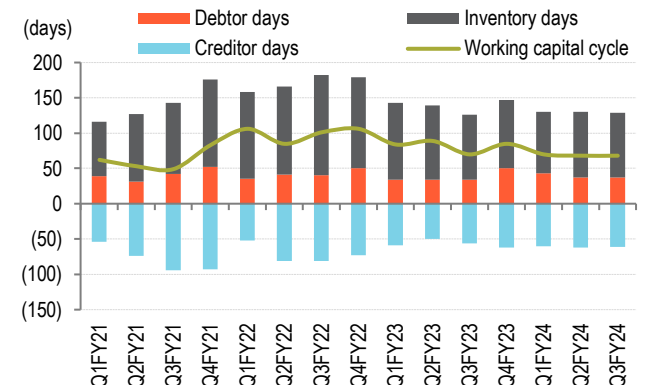
Source: Company, BOBCAPS Research

Fig 8 – Electronics business performance

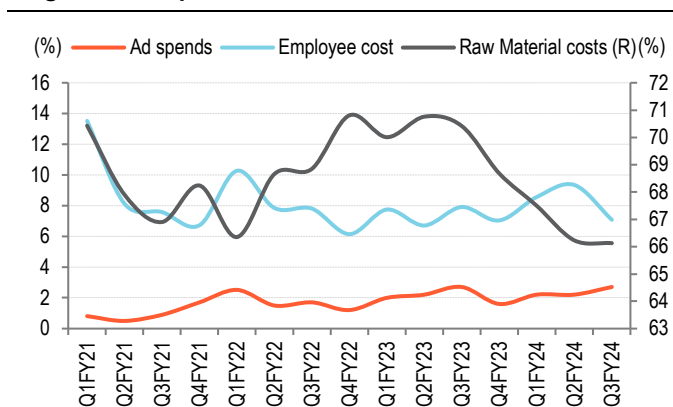
Source: Company, BOBCAPS Research

Fig 9 – Capital levels

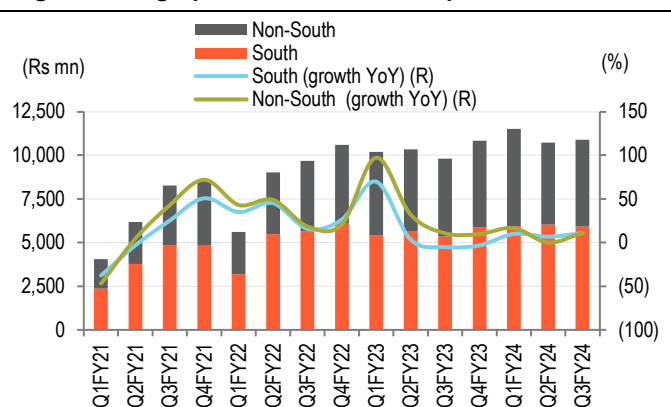
Source: Company, BOBCAPS Research

Fig 10 – Working capital cycle

Source: Company, BOBCAPS Research

Fig 11 – Cost profile

Source: Company, BOBCAPS Research

Fig 12 – Geographical revenue breakup

Source: Company, BOBCAPS Research

Earnings call highlights

- Consumer durables (CD):** In the CD segment, which includes fans, water heaters and kitchen appliances, VGRD witnessed soft demand during Q3FY24 with green shoots visible only during the month of December. EBIT margin expanded 430bps YoY to 3% but was lower than industry. With consumer demand looking up and efforts to boost margins, management expects the CD segment to grow the fastest among its categories.
- Fans:** Q3 of last year saw high volumes as the market was transitioning to star-rated fans, leading to efforts to liquidate old inventory. VGRD, however, stopped selling the non-rated fans around Nov'22, with fan sales in December of last year largely attributable to the higher-margin star-rated fans. Margins in this product category are lower than peers, which VGRD intends to rectify going forward. The company now produces ~50% of ceiling fans sold, as opposed to 100% outsourcing a few years ago.
- Water heaters:** The water heaters business was slow during the quarter due to the warmer winter weather. Margins in the business are below management's aspirations as VGRD currently operates in the mid and lower categories. New product launches and continued premiumisation are expected to improve margins.
- Electronics:** In the electronics segment, VGRD expects inverters and batteries to grow the fastest. The company is already one of the largest players in stabilisers, where it expects growth to be in line with the industry.
- Sunflame:** Sunflame continues to increase its presence in online distribution channels, with e-commerce accounting for 25-30% of Q3 sales and organised retail commanding a healthy share as well. Some product categories are still driven by older channels such as general trade, which the company intends to expand to the online route as well.

- **Profitability:** ROE and ROCE for the trailing 12-month period were 13.5% and 15.1% respectively, contracting 150bps and 190bps YoY due to a lower base last year on account of provision write-back. On a QoQ basis, ROE and ROCE grew 70bps and 130bps respectively.

During Q3, the company accounted for a Rs 450mn provision for extended producer responsibility (EPR) regulations imposed by the government relating to recycling and waste disposal systems, in addition to a Rs 450mn provision for the inverter business due to margin issues. VGRD expects to maintain a 9-9.5% EBITDA margin for FY24.

- **Liquidity:** Net cash as of Q3FY24 stood at Rs 1.5bn as compared to Rs 3.4bn at the end of Q3FY23. The company plans to begin repaying debt on account of the Sunflame acquisition from Apr'24.
- **Capex:** Management expects to incur Rs 800-900mn in capex per annum in FY24 and FY25.

Valuation methodology

VGRD is a prominent player in South India and fast expanding its reach beyond its traditional market. We expect sales of fans and water heaters to accelerate growth in the company's consumer durables segment, in turn offsetting potentially lower revenue from kitchen appliances (Sunflame) due to the slowdown in the kitchen industry.

Though the quarter was largely in line with our expectations, the kitchen appliances and consumer durables sector continue to suffer from headwinds in the form of slow demand pickup and intensifying competition. We adjust our FY24/FY25/FY26 EPS estimates by -21%/-2%/+3% and roll valuations forward to Dec'25E. This gives us a revised TP of Rs 310 (vs. Rs 300), based on an unchanged 30x P/E multiple – 15% discount to the stock's three-year average. Maintain HOLD.

Fig 13 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	49,776	56,141	61,621	51,095	57,608	63,234	(2.6)	(2.5)	(2.6)
EBITDA	4,476	5,903	6,920	5,507	6,145	6,989	(18.7)	(3.9)	(1.0)
PAT	2,732	3,765	4,530	3,458	3,849	4,410	(21.0)	(2.2)	2.7
EPS (Rs)	6.3	8.7	10.5	8.0	8.9	10.2	(21.0)	(2.2)	2.8
EBITDA Margin (%)	9.0	10.5	11.2	10.8	10.7	11.1	(180bps)	(20bps)	10bps

Source: Company, BOBCAPS Research

Key risks

- Above-expected growth in non-south regions is a key upside risk to our estimates.
- Increased competition in the kitchen appliances segment, resulting in fewer synergistic benefits from the Sunflame acquisition, represents a key downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Dixon Technologies	DIXON IN	4.5	6,238	6,900	BUY
Havells India	HAVL IN	10.2	1,341	1,600	BUY
KEI Industries	KEII IN	3.5	3,201	3,120	HOLD
Orient Electric	ORIENTEL IN	0.6	220	240	HOLD
Polycab India	POLYCAB IN	8.0	4,384	5,200	BUY
Syrma SGS	SYRMA IN	1.3	581	560	HOLD
V-Guard Industries	VGRD IN	1.6	310	310	HOLD
Voltas	VOLT IN	4.3	1,058	1,060	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	35,002	41,260	49,776	56,141	61,621
EBITDA	3,402	3,199	4,476	5,903	6,920
Depreciation	491	644	799	966	1,116
EBIT	2,911	2,555	3,677	4,937	5,804
Net interest inc./(exp.)	(79)	(162)	(402)	(357)	(291)
Other inc./(exp.)	108	164	378	454	544
Exceptional items	0	0	0	0	0
EBT	2,940	2,557	3,654	5,034	6,058
Income taxes	655	667	921	1,269	1,527
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,277	1,891	2,732	3,765	4,530
Adjustments	0	0	0	0	0
Adjusted net profit	2,277	1,891	2,732	3,765	4,530

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	4,880	4,885	7,500	8,460	9,285
Other current liabilities	1,166	1,814	2,189	2,469	2,710
Provisions	0	0	0	0	0
Debt funds	118	4,196	2,679	2,379	2,079
Other liabilities	732	2,097	2,530	2,854	3,132
Equity capital	432	432	432	432	432
Reserves & surplus	13,638	15,644	17,728	20,758	24,467
Shareholders' fund	14,070	16,076	18,160	21,190	24,899
Total liab. and equities	20,966	29,069	33,058	37,351	42,105
Cash and cash eq.	613	670	(432)	(408)	725
Accounts receivables	4,841	5,687	6,819	7,998	8,779
Inventories	8,596	7,674	10,910	13,074	15,194
Other current assets	1,152	1,021	1,232	1,390	1,525
Investments	0	0	0	0	0
Net fixed assets	4,842	5,683	5,884	6,418	6,803
CWIP	92	237	286	322	354
Intangible assets	200	6,822	6,822	6,822	6,822
Deferred tax assets, net	0	0	0	0	0
Other assets	631	1,274	1,537	1,734	1,903
Total assets	20,966	29,069	33,058	37,351	42,105

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	1,390	4,238	1,942	2,468	3,676
Capital expenditures	0	(1,012)	(1,000)	(1,500)	(1,500)
Change in investments	0	(6,615)	0	0	0
Other investing cash flows	(1,198)	(85)	121	90	78
Cash flow from investing	(1,198)	(7,712)	(879)	(1,410)	(1,422)
Equities issued/Others	0	1	0	0	0
Debt raised/repaid	(12)	1,349	(1,517)	(300)	(300)
Interest expenses	0	0	0	0	0
Dividends paid	(603)	1,912	(648)	(735)	(821)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(615)	3,262	(2,165)	(1,035)	(1,121)
Chg in cash & cash eq.	(423)	(212)	(1,102)	24	1,133
Closing cash & cash eq.	613	670	(432)	(408)	725

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	5.3	4.4	6.3	8.7	10.5
Adjusted EPS	5.3	4.4	6.3	8.7	10.5
Dividend per share	1.3	1.3	1.5	1.7	1.9
Book value per share	32.6	37.2	42.0	49.0	57.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.8	3.2	2.7	2.4	2.2
EV/EBITDA	39.4	41.9	29.9	22.7	19.4
Adjusted P/E	58.8	70.9	49.0	35.6	29.6
P/BV	9.5	8.3	7.4	6.3	5.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	77.5	73.9	74.8	74.8	74.8
Interest burden (PBT/EBIT)	101.0	100.1	99.4	102.0	104.4
EBIT margin (EBIT/Revenue)	8.3	6.2	7.4	8.8	9.4
Asset turnover (Rev./Avg TA)	7.2	7.3	8.5	8.7	9.1
Leverage (Avg TA/Avg Equity)	0.4	0.4	0.3	0.3	0.3
Adjusted ROAE	17.4	12.5	16.0	19.1	19.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	28.6	17.9	20.6	12.8	9.8
EBITDA	9.0	(6.0)	39.9	31.9	17.2
Adjusted EPS	13.4	(16.9)	44.5	37.8	20.3

Profitability & Return ratios (%)

EBITDA margin	9.7	7.8	9.0	10.5	11.2
EBIT margin	8.3	6.2	7.4	8.8	9.4
Adjusted profit margin	6.5	4.6	5.5	6.7	7.4
Adjusted ROAE	17.4	12.5	16.0	19.1	19.7
ROCE	17.6	11.7	14.8	18.2	18.8

Working capital days (days)

Receivables	45	47	50	52	52
Inventory	78	72	80	85	90
Payables	50	43	55	55	55

Ratios (x)

Gross asset turnover	6.1	5.8	5.9	5.8	5.5
Current ratio	2.5	1.8	1.9	2.0	2.1
Net interest coverage ratio	36.9	15.8	9.2	13.8	19.9
Adjusted debt/equity	0.0	0.3	0.1	0.1	0.1

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**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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

BUY – Expected return >+15%

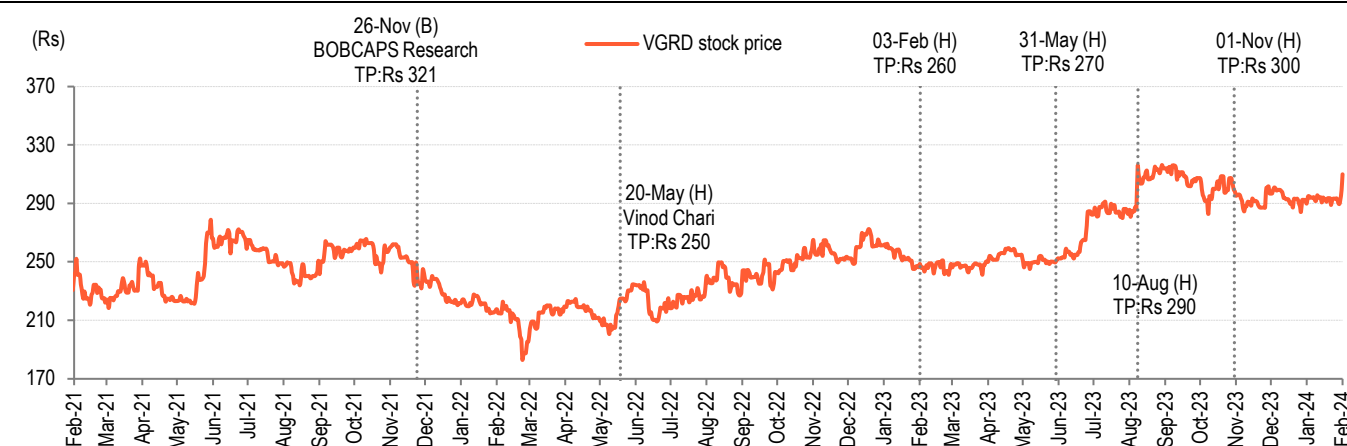
HOLD – Expected return from -6% to +15%

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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