

HOLD

TP: Rs 270 | ▲ 8%

V-GUARD INDUSTRIES

Consumer Durables

31 May 2023

Sunflame key for FY24

- Flat quarter despite growth in non-core markets; Q4 gross margin improved but EBITDA margin still under pressure
- Sunflame revenue at Rs 569mn in Q4; likely to be a key growth driver in FY24
- We raise FY24/FY25 EPS by 14%/15% to bake in Sunflame's contribution; on rollover, our TP rises to Rs 270 (vs. Rs 260) – maintain HOLD

Vinod Chari | Nilesh Patil
Swati Jhunjhunwala
research@bobcaps.in

Flattish topline: VGRD's Q4FY23 topline at Rs 11.4bn includes Sunflame revenue of Rs 569mn, excluding which growth was flattish at 2% YoY. Non-south markets grew 10% YoY compared to a 3% decline in core southern markets. Management guides for 14-15% topline growth (ex-Sunflame) in FY24, with gross margin expansion to pre-Covid levels of 32-33%. It also expects Sunflame to grow to 12-13% on topline, with a sustainable EBITDA margin of 12-13% (vs. 15.8% in Q4FY23).

Durables business lags: The consumer durables vertical slipped 3% YoY amidst a tough demand environment. The electronics division grew 10% due to summer products while electricals was largely flat. Working capital days increased to 85 from 70 days in the preceding quarter due to higher inventory in electronics.

Gross margin improves but EBITDA margin still under pressure: Gross margin improved 170bps QoQ and 210bps YoY to 31.3% as benefits of stable commodity prices began to flow through and high-cost inventories normalised in the consumer durables segment. Management expects gross margin to improve further in Q1FY24. EBITDA margin contracted by 190bps YoY to 9.5% during the quarter (-110bps excluding one-time cost of Sunflame acquisition), largely due to higher A&P spends amounting to 1.6% of revenue (vs. 1.2% in Q4FY22).

Sunflame to be independent for now: VGRD has completed the acquisition of Sunflame in Q4 and expects to run it as a separate business given its differing cost structure and go-to-market strategy. This apart, VGRD has its own kitchen business and is planning capacity addition in mixers and gas stoves. Thus, to avoid dilution of the Sunflame business, the company plans to keep it separate.

Maintain HOLD: We raise FY24/FY25 EPS estimates by 14%/15% to bake in Q4 print & Sunflame's contribution. We value VGRD at 30x FY25E P/E, on slow market growth & rising competition in local market, 15% discount to 3Y average, & roll over to Mar'25E for revised TP of Rs 270 (vs. Rs 260). Though we believe long-term growth levers are intact given thrust on high-growth durables business & synergies from Sunflame, near-term outlook is weak by inflation & demand. Thus, retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VGRD IN/Rs 251
Market cap	US\$ 1.3bn
Free float	44%
3M ADV	US\$ 0.3mn
52wk high/low	Rs 275/Rs 204
Promoter/FPI/DII	56%/13%/19%

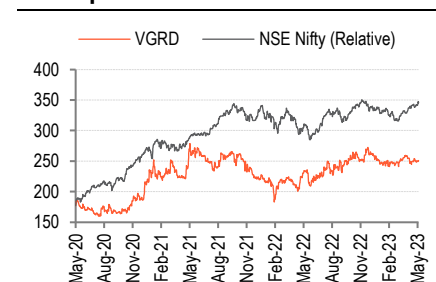
Source: NSE | Price as of 31 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	41,260	51,003	57,485
EBITDA (Rs mn)	3,199	5,491	6,124
Adj. net profit (Rs mn)	1,891	3,447	3,834
Adj. EPS (Rs)	4.4	8.0	8.9
Consensus EPS (Rs)	4.4	7.0	8.1
Adj. ROAE (%)	12.5	19.7	18.8
Adj. P/E (x)	57.4	31.5	28.3
EV/EBITDA (x)	33.9	19.8	17.7
Adj. EPS growth (%)	(16.9)	82.3	11.2

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

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	11,401	10,592	7.6	9,808	16.2	41,260	35,002	17.9
EBITDA	987	1,120	(11.9)	659	49.8	3,199	3,402	(6.0)
EBITDA Margin (%)	8.7	10.6	(190bps)	6.7	190bps	7.8	9.7	(200bps)
Depreciation	191	129	-	167	-	644	491	-
Interest	102	18	-	24	-	162	79	-
Other Income	26	27	-	60	-	164	108	-
PBT	721	1,000	(27.9)	528	36.4	2,557	2,940	(13.0)
Tax	194	104	-	136	-	0	473	-
Adjusted PAT	527	896	(41.1)	393	34.2	1,891	2,277	(16.9)
Exceptional item	-	-	-	-	-	-	-	-
Reported PAT	527	897	(41.2)	393	34.2	1,891	2,277	(16.9)
Adj. PAT Margin (%)	4.6	8.5	(380bps)	4.0	60bps	4.6	6.5	(190bps)
EPS (Rs)	1.2	2.1	(41.2)	0.9	34.0	4.4	5.3	(16.9)

Source: Company, BOBCAPS Research

Fig 2 – Actuals vs. Estimates

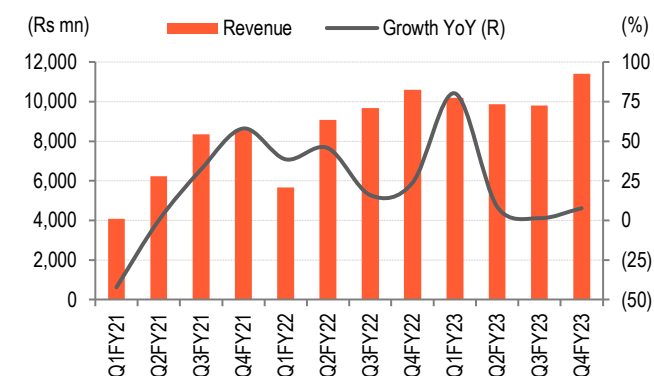
Particulars (Rs mn)	Actuals	Estimates	Variance (%)
Revenue	11,401	10,789	5.7
EBITDA	987	958	3.0
EBITDA Margin (%)	8.7	8.9	(20bps)
Adj. PAT	527	668	(21.1)

Source: Company, BOBCAPS Research

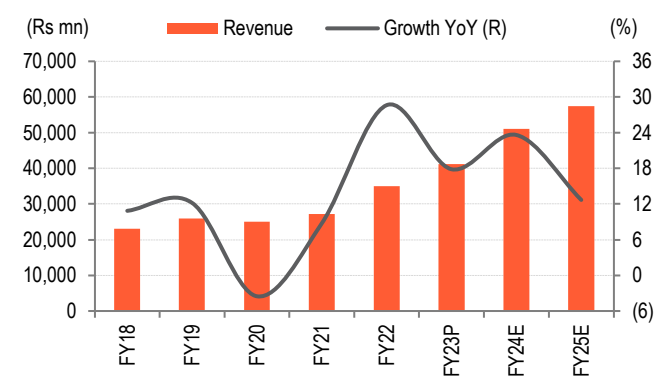
Fig 3 – Segment-wise performance

(Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Revenues												
Consumer Durables	855	1,634	2,641	2,237	1,497	2,794	3,384	2,959	2,991	3,372	3,537	2,862
% of sales	21.0	26.2	31.6	26.2	26.5	30.8	35.0	28.0	29.4	34.2	36.1	25.1
Electricals	1,848	2,886	3,635	3,888	2,565	4,188	4,292	5,152	4,159	4,216	4,358	5,253
% of sales	45.3	46.3	43.5	45.5	45.4	46.2	44.4	48.7	40.8	42.8	44.4	46.1
Electronics	1,377	1,710	2,074	2,428	1,590	2,092	1,999	2,471	3,034	2,274	1,914	2,717
% of sales	33.7	27.4	24.8	28.4	28.1	23.1	20.7	23.4	29.8	23.1	19.5	23.8
EBIT												
Consumer Durables	(87)	136	264	89	(59)	85	96	50	38	97	(45)	(11)
Margin (%)	(10.2)	8.3	10.0	4.0	(3.9)	3.0	2.8	1.7	1.3	2.9	(1.3)	(0.4)
Electricals	59	287	331	427	254	421	355	555	283	228	397	478
Margin (%)	3.2	9.9	9.1	11.0	9.9	10.1	8.3	10.8	6.8	5.4	9.1	9.1
Electronics	93	306	512	531	207	392	338	431	429	333	222	325
Margin (%)	6.8	17.9	24.7	21.9	13.0	18.7	16.9	17.4	14.1	14.6	11.6	12.0

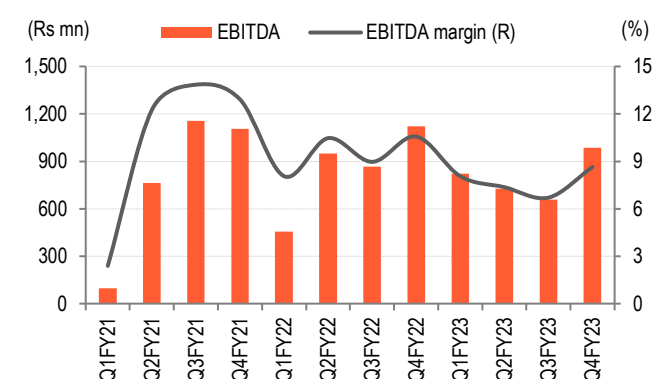
Source: Company, BOBCAPS Research

Fig 4 – Quarterly revenue trend

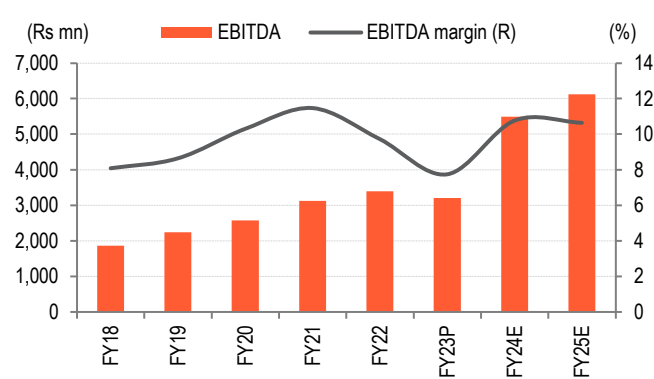
Source: Company, BOBCAPS Research

Fig 5 – Annual revenue trend

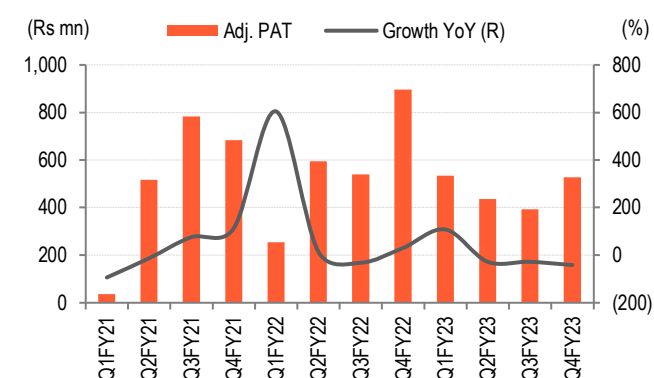
Source: Company, BOBCAPS Research

Fig 6 – Quarterly EBITDA trend

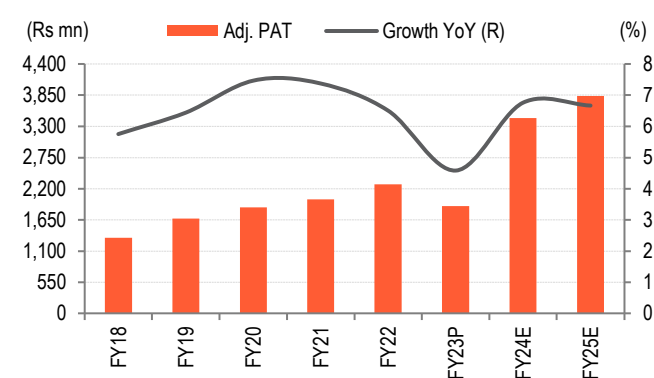
Source: Company, BOBCAPS Research

Fig 7 – Annual EBITDA trend

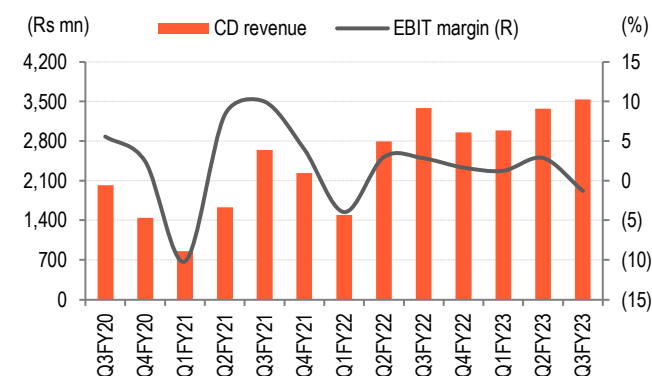
Source: Company, BOBCAPS Research

Fig 8 – Quarterly net profit trend

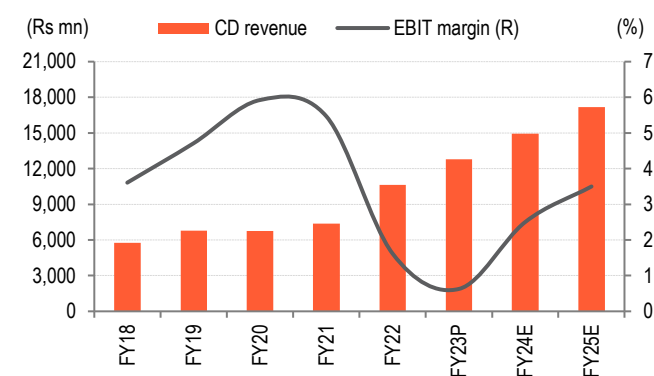
Source: Company, BOBCAPS Research

Fig 9 – Annual net profit trend

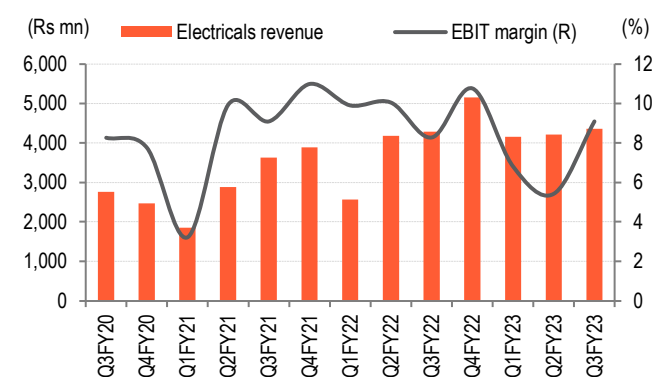
Source: Company, BOBCAPS Research

Fig 10 – Consumer Durables: Quarterly performance

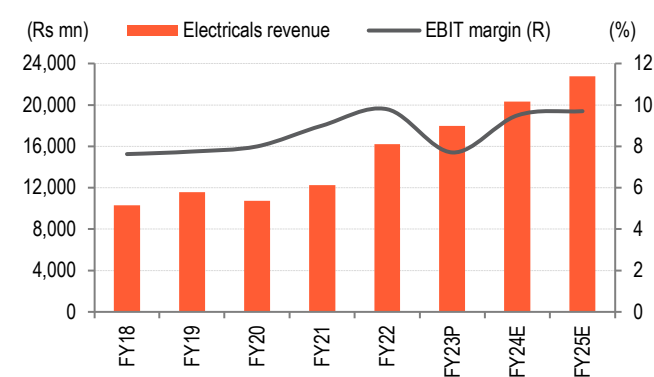
Source: Company, BOBCAPS Research

Fig 11 – Consumer Durables: Annual performance

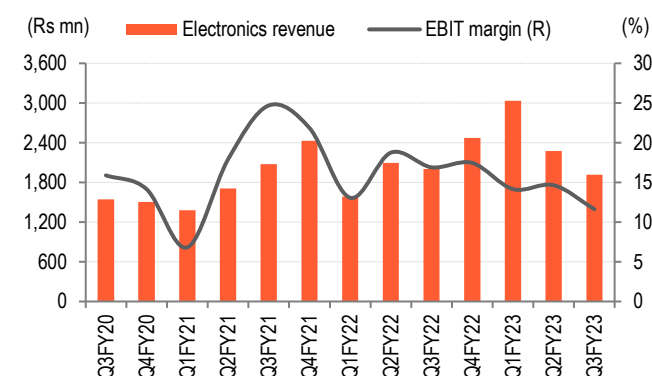
Source: Company, BOBCAPS Research

Fig 12 – Electricals: Quarterly performance

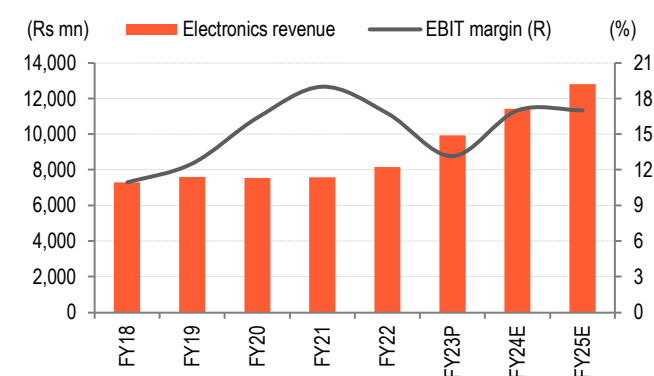
Source: Company, BOBCAPS Research

Fig 13 – Electricals: Annual performance

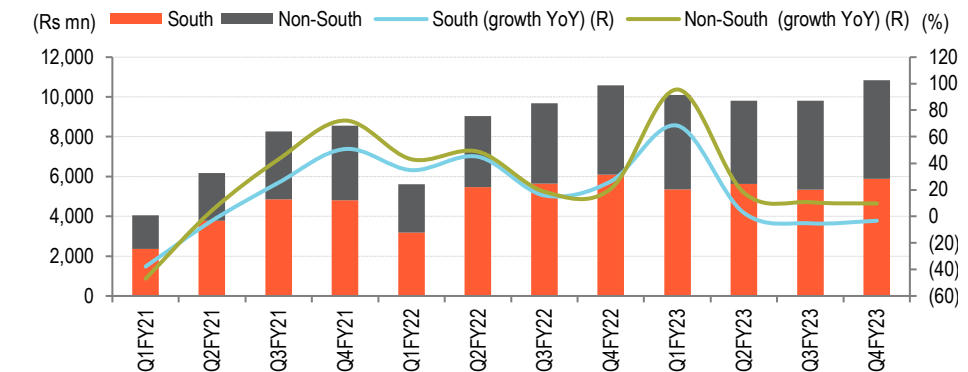
Source: Company, BOBCAPS Research

Fig 14 – Electronics: Quarterly performance

Source: Company, BOBCAPS Research

Fig 15 – Electronics: Annual performance

Source: Company, BOBCAPS Research

Fig 16 – Geographical revenue breakup

Source: Company, BOBCAPS Research

Earnings call highlights

- Demand outlook:** The consumer durables industry has witnessed a slowdown as widespread inflation in food and other commodities hurt consumer sentiment. The constant interest rate hikes also left little scope for retailers to borrow, which has reduced stocking at the retail front as well. VGRD is seeing green shoots with some segments witnessing a rebound. Management expects demand to return in the second quarter as fuel prices have tapered down along with other commodities.
- Sunflame:** The company will operate VGRD and Sunflame as two separate entities as integration will shift the focus to cost efficiencies for Sunflame whereas management wants to push revenue growth in the near term and focus on cost reduction thereafter. Moreover, the cost structure and go-to-market strategies for both players are different, even as overlapping business areas could cannibalise on Sunflame's sales. VGRD expects to benefit from synergies in terms of freight, procurement and customer service, among others.
- Working capital:** VGRD improved its working capital cycle YoY by 26 days, largely due to better inventory management. It has released working capital of Rs 2bn in the last fiscal and believes there is scope to further reduce the same by Rs 600mn-700mn in the coming quarters.
- Advertising and promotion (A&P):** The company expects to increase its A&P expenditure in FY24 to pre-Covid levels and is targeting spends at ~3% of revenue vs. 2.1% in FY23 given better gross margins. It will also increase A&P expense under Sunflame to strengthen the brand and further drive revenue growth.
- Electronics segment:** The electronics segment earns higher margins during July to December of a fiscal year when the mix of television and refrigerator inverters and stabilisers is higher, as compared to January-June when air conditioning inverters and stabilisers make a larger contribution.
- Distribution:** The company is increasing its presence in the non-south regions, which represent 60-65% of the addressable market. It also expects to add 3,000-5,000 retailers per year to its current reach of 50,000-60,000.
- Capex:** In FY23, capex stood at Rs 5.3bn, and management expects to incur Rs 1bn in FY24.

Valuation methodology

We raise our FY24/FY25 EPS estimates by 14%/15% to bake in the Q4FY23 print as well as Sunflame's contribution. We value VGRD at a 30x FY25E P/E multiple, a 20% discount to the three-year average, and roll over to Mar'25E for a revised TP of Rs 270 (vs. Rs 260).

Though we believe long-term growth levers are intact given a thrust on the high-growth durables business and synergies from Sunflame, the near-term outlook is hindered by inflation and higher competition. We thus retain our HOLD rating.

Fig 17 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	51,003	57,485	44,168	49,878	15.5	15.3
EBITDA	5,491	6,124	4,595	5,151	19.5	18.9
PAT	3,447	3,834	3,021	3,329	14.1	15.2
EPS (Rs)	8.0	8.9	7.0	7.7	13.9	15.2
EBITDA Margin (%)	10.8	10.7	10.4	10.3	40bps	40bps

Source: BOBCAPS Research

Key risks

Key risks to our estimates are:

- **Upside:** Above-expected market share gains in non-core northern regions
- **Downside:** Intensifying competition in the kitchen appliances segment, resulting in fewer synergy benefits from the Sunflame acquisition

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,117	2,260	HOLD
Blue Star	BLSTR IN	1.7	1,442	1,650	BUY
Crompton Greaves	CROMPTON IN	2.1	275	370	BUY
Dixon Technologies	DIXON IN	2.8	3,879	4,100	BUY
Havells India	HAVL IN	10.0	1,308	1,500	BUY
KEI Industries	KEII IN	2.2	1,997	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	239	240	HOLD
Polycab India	POLYCAB IN	6.2	3,424	3,900	BUY
Syrma SGS	SYRMA IN	0.8	393	440	BUY
V-Guard Industries	VGRD IN	1.3	251	270	HOLD
Voltas	VOLT IN	3.3	821	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	27,212	35,002	41,260	51,003	57,485
EBITDA	3,121	3,402	3,199	5,491	6,124
Depreciation	386	491	644	799	966
EBIT	2,735	2,911	2,555	4,692	5,158
Net interest inc./(exp.)	(61)	(79)	(162)	(268)	(238)
Other inc./(exp.)	207	108	164	184	206
Exceptional items	0	0	0	0	0
EBT	2,881	2,940	2,557	4,609	5,126
Income taxes	862	655	667	1,161	1,292
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,008	2,277	1,891	3,447	3,834
Adjustments	0	0	0	0	0
Adjusted net profit	2,008	2,277	1,891	3,447	3,834

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	4,747	4,880	4,885	7,685	8,662
Other current liabilities	1,050	1,166	1,814	2,243	2,528
Provisions	0	0	0	0	0
Debt funds	130	118	4,196	2,679	2,379
Other liabilities	710	732	2,097	2,592	2,922
Equity capital	430	432	432	432	432
Reserves & surplus	11,683	13,638	15,644	18,442	21,541
Shareholders' fund	12,113	14,070	16,076	18,874	21,973
Total liab. and equities	18,750	20,966	29,069	34,074	38,464
Cash and cash eq.	2,812	613	670	(1,606)	(669)
Accounts receivables	3,881	4,841	5,687	7,266	8,190
Inventories	6,315	8,596	7,674	12,576	14,174
Other current assets	1,003	1,152	1,021	1,263	1,423
Investments	0	0	0	0	0
Net fixed assets	3,913	4,842	5,683	5,884	6,418
CWIP	185	92	237	293	330
Intangible assets	129	200	6,822	6,822	6,822
Deferred tax assets, net	0	0	0	0	0
Other assets	513	631	1,274	1,575	1,775
Total assets	18,750	20,966	29,069	34,074	38,464

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	3,695	1,390	4,238	751	3,379
Capital expenditures	0	0	(1,012)	(1,000)	(1,500)
Change in investments	26	0	(6,615)	0	0
Other investing cash flows	383	(1,198)	(85)	138	92
Cash flow from investing	409	(1,198)	(7,712)	(862)	(1,408)
Equities issued/Others	0	0	1	0	0
Debt raised/repaid	2	(12)	1,349	(1,517)	(300)
Interest expenses	0	0	0	0	0
Dividends paid	(60)	(603)	1,912	(648)	(735)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(58)	(615)	3,262	(2,165)	(1,035)
Chg in cash & cash eq.	4,047	(423)	(212)	(2,276)	936
Closing cash & cash eq.	2,812	613	670	(1,606)	(669)

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	4.6	5.3	4.4	8.0	8.9
Adjusted EPS	4.6	5.3	4.4	8.0	8.9
Dividend per share	1.2	1.3	1.3	1.5	1.7
Book value per share	28.0	32.6	37.2	43.7	50.8

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	4.0	3.1	2.6	2.1	1.9
EV/EBITDA	34.8	31.9	33.9	19.8	17.7
Adjusted P/E	54.0	47.7	57.4	31.5	28.3
P/BV	9.0	7.7	6.7	5.7	4.9

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	69.7	77.5	73.9	74.8	74.8
Interest burden (PBT/EBIT)	105.3	101.0	100.1	98.2	99.4
EBIT margin (EBIT/Revenue)	10.0	8.3	6.2	9.2	9.0
Asset turnover (Rev./Avg TA)	7.0	7.2	7.3	8.7	9.0
Leverage (Avg TA/Avg Equity)	0.4	0.4	0.4	0.3	0.3
Adjusted ROAE	18.2	17.4	12.5	19.7	18.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	8.7	28.6	17.9	23.6	12.7
EBITDA	21.0	9.0	(6.0)	71.7	11.5
Adjusted EPS	7.3	13.4	(16.9)	82.3	11.2
Profitability & Return ratios (%)					
EBITDA margin	11.5	9.7	7.8	10.8	10.7
EBIT margin	10.0	8.3	6.2	9.2	9.0
Adjusted profit margin	7.4	6.5	4.6	6.8	6.7
Adjusted ROAE	18.2	17.4	12.5	19.7	18.8
ROCE	18.3	17.6	11.7	17.4	17.5

Working capital days (days)

Receivables	48	45	47	52	52
Inventory	74	78	72	90	90
Payables	52	50	43	55	55

Ratios (x)

Gross asset turnover	6.5	6.1	5.8	6.1	6.0
Current ratio	2.4	2.5	1.8	1.9	2.0
Net interest coverage ratio	44.8	36.9	15.8	17.5	21.7
Adjusted debt/equity	0.0	0.0	0.3	0.1	0.1

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

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

CIN: **U65999MH1996GOI098009**



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

BUY – Expected return >+15%

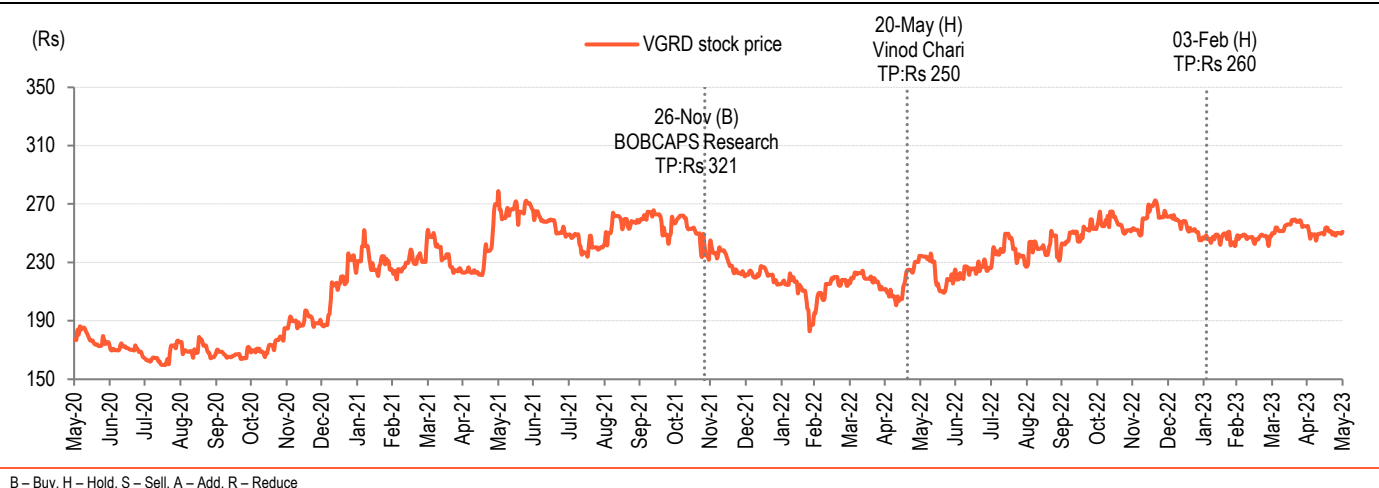
HOLD – Expected return from -6% to +15%

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)



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