

January 29, 2025

RESULT REPORT Q3 FY25 | Sector: Consumer Durables

# V-Guard Industries Ltd

**Inhouse manufacturing coupled with premiumization to drive margin expansion; Upgrade to BUY**

## Result Synopsis

VGRD reported revenue growth of 9% marginally missing estimates. The growth was driven by strong performance of electronics segment (+27.9%) followed by Consumer durables (+8.1%). Electricals revenue grew 1.2%, lower growth in electricals was largely on account of channel de-stocking of wires. Sunflame has grown by 4% yoy. muted revenue growth was attributed to lower demand for kitchen appliances and significant decline in CSD orders. Gross margins for the quarter expanded by 228bps yoy on back of, benefit of pricing actions and increased in-house manufacturing. Company believes large part of gross margin improvement on back of moving production inhouse is largely done with, further gross margins will expand when plant utilization sees improvement in couple of years. VGRD has started to make inroads in the non-south market resulting in non-south revenue growing faster than the South. On the Sunflame front restructuring is under way and company expects initiatives taken will take 3-4 quarters post which company will sunflame can see sustainable growth. We expect strong growth (ex of Sunflame) to continue in ensuing quarters as well, however margin is expected to remain in the similar range. Considering recent correction in the stock price we upgrade the stock to BUY with the revised PT of Rs430 valuing the stock at 42x FY27 EPS.

We believe VGRD's brand strength, investments in own manufacturing and increased distribution in non-South markets are now paying rich dividends with non-south market with improved growth is also witnessing margin improvement. Moreover, material margins have been improving trend. We are factoring FY24-27E Revenue/EBITDA/PAT CAGR of 13%/17%/20% and our EPS for FY26 and FY27 gets trimmed largely considering higher employee expenses. We, however upgrade our rating to BUY given correction in the stock price and ex of sunflame business is on sound footing.

## Result Highlights

- Quarter summary** – V-guard has registered revenue growth 8.9% YoY driven by strong growth in Electronics, Electricals has seen muted growth of 1.2% on back of channel de-stocking of wires owing to volatility in copper prices. Consumer durables registered growth of 8%.
- Margin** – Gross margin at 36.2% has seen expansion of 228bps, while EBITDA margin came in at 8.2% has contracted by 51bps. Higher employee expenses and increased A&P spends has resulted in EBITDA margin contraction.
- South vs Non-south** – South markets witnessed a YoY growth of 3.7% whereas non-South markets grew by 15.8% in Q3FY25. Non-south market contribution stands at 48.4%.
- Debt** – The company now has net cash of Rs 277.2mn vs net debt of Rs1451.2mn as on Q3FY24. The company has further repaid long term debt taken for sunflame acquisition and expect to repay entire debt by end of the fiscal.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	12,687	13,056	12,862	-3%	-1%	Higher employee expenses and increased A&P spends has resulted margin miss .
EBITDA	1,041	1,189	1,178	-12%	-12%	
EBITDA Margin (%)	8.2%	9.1%	9.2%	-90 bps	-95 bps	
Adjusted PAT	602	714	704	-16%	-14%	

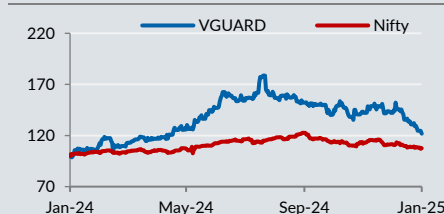
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 357
Target Price	: Rs 430
Potential Return	: +20.4%

## Stock data (as on Jan 29, 2025)

Nifty	23,163
52 Week h/l (Rs)	577 / 289
Market cap (Rs/USD mn)	154036 / 1779
Outstanding Shares (mn)	435
6m Avg t/o (Rs mn):	263
Div yield (%)	0.4
Bloomberg code:	VGRD IN
NSE code:	VGUARD

## Stock performance



	1M	3M	1Y
Absolute return	-14.4%	-16.3%	22.8%

## Shareholding pattern (As of Dec'24 end)

Promoter	54.4%
FII+DII	34.0%
Others	11.7%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	430	467

## Δ in earnings estimates

	FY26e	FY27e
EPS (New)	8.6	10.2
EPS (Old)	9.3	11.1
% change	-7.5%	-8.1%

## Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	55,396	62,322	69,564
YoY Growth	14.1%	12.5%	11.6%
EBIDTA	5,152	5,983	6,887
YoY Growth	20.7	16.1	15.1
PAT	3,076	3,756	4,448
YoY Growth	19.4%	22.1%	18.4%
ROE	15.9	17.1	17.7
EPS	7.1	8.6	10.2
P/E	50.4	41.3	34.9
BV	47.2	53.8	61.6
EV/EBITDA	30.5	26.0	22.3

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## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q3FY25	Q4FY25	Q1FY25	Q2FY25	Q3FY25	y/y %	q/q %	9MFY25	9MFY24	y/y %
Sales	11,654	13,428	14,771	12,940	12,687	8.9	(2.0)	40,397	35,139	15.0
EBITDA	1016	1279	1558	1103	1041	2.5	(5.6)	3,702	2,989	23.9
EBITDA Margin %	8.7	9.5	10.5	8.5	8.2			9.2	8.5	
Depreciation	191	222	217	221	250	30.8	13.3	689	587	17.3
EBIT	825	1057	1340	882	791	(4.1)	(10.3)	3,013	2,402	25.5
EBIT Margin %	7.1	7.9	9.1	6.8	6.2			7.5	6.8	
Interest charges	94	99	86	76	58	(38.5)	(23.6)	220	296	(25.8)
Other Income	32	49	69	41	54	70.2	34.1	164	291	(43.8)
PBT	763	1006	1324	846	787	3.3	(6.9)	2,957	2,397	23.4
Tax	180	245	334	212	185	2.8	(12.8)	731	583	25.5
Effective Tax Rate (%)	23.6	24.3	25.2	25.1	23.5			24.7	24.3	
PAT	582	762	990	634	602	3.4	(5.0)	2,226	1,814	22.7
PAT Margin %	5.0	5.7	6.7	4.9	4.7			5.5	5.2	
EPS (Rs)	1.3	1.8	2.3	1.5	1.4	3.4	(5.0)	5.2	4.2	22.7

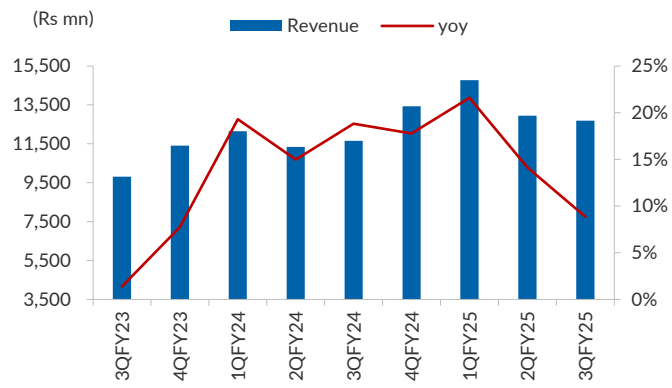
Source: Company, YES Sec

## Exhibit 3: Segmental Performance

Rs mn	Q3Y24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	y/y %	q/q %	9MFY25	9MFY24	y/y %
Electronics	2,236	3,228	5,131	3,030	2,860	27.9	(5.6)	11,021	8,424	30.8
Electricals	4,727	5,814	4,877	5,376	4,786	1.2	(11.0)	15,039	13,917	8.1
Consumer Durables	3,928	3,657	4,176	3,923	4,248	8.1	8.3	12,347	10,786	14.5
Sunflame	763	730	587	611	794	4.0	30.0	1,991	2,011	(1.0)
Net Sales	11,654	13,428	14,771	12,940	12,687	8.9	(2.0)	40,397	35,139	15.0
PBIT										
Electronics	287.4	483.1	1035.1	594.5	561.9	95.5	(5.5)	2,192	1,336	64.0
Electricals	428.8	724.1	491.7	491.2	429.4	0.1	(12.6)	1,412	1,206	17.1
Consumer Durables	116.8	129.3	217.3	160.8	176.6	51.2	9.8	555	191	190.3
Sunflame	82.1	73.2	27.3	8.6	22.0	(73.2)	155.8	58	184	(68.5)
Total PBIT	915	1,410	1,771	1,255	1,190	30.0	(5.2)	4,216	2,917	44.5
Finance Costs	94.2	99.4	85.9	75.8	57.9	(38.5)	(23.6)	220	296	(25.8)
Unallocable expense	58	304	362	333	345	490.1	3.5	1,040	224	363.7
as % of sales	0.5	2.3	2.5	2.6	2.7		5.5	2.6	1	
Exceptional Items	0	0	0	0	0			0	0	
PBT	763	1006	1324	846	787	3.3	(6.9)	2,957	2,397	23.4
PBIT Margins (%)						(bps)	(bps)			(bps)
Electronics	12.9	15.0	20.2	19.6	19.6	680	3	19.9	15.9	402
Electricals	9.1	12.5	10.1	9.1	9.0	(10)	(16)	9.4	8.7	73
Consumer Durables	3.0	3.5	5.2	4.1	4.2	118	6	4.5	1.8	272
Sunflame	10.8	10.0	4.7	1.4	2.8	(799)	136	2.9	9.1	(623)
Total PBIT	7.9	10.5	12.0	9.7	9.4	153	(32)	10.4	8.3	214

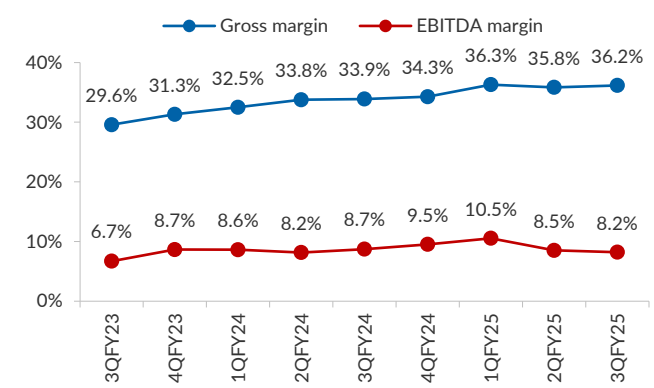
Source: Company, YES Sec

**Exhibit 4: Revenue growth has been driven by strong performance from the Electronics segment**



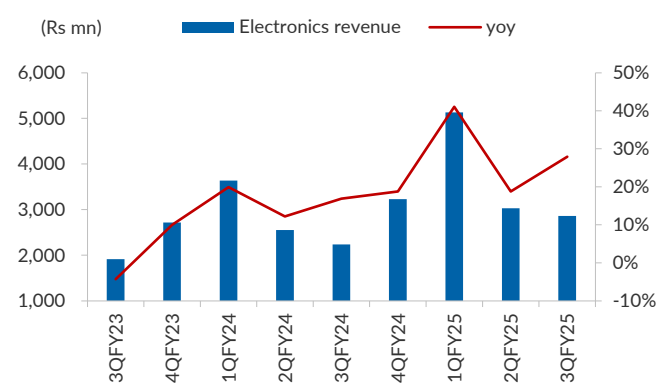
Source: Company, YES Sec

**Exhibit 5: Higher inhouse manufacturing shift to premium product has resulted in margin expansion**



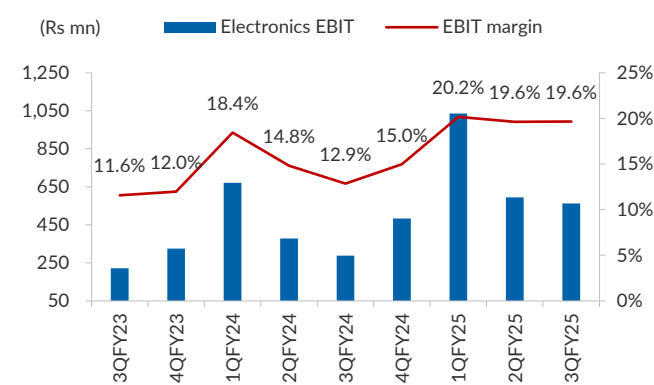
Source: Company, YES Sec

**Exhibit 6: Electronics continues to deliver strong revenue growth**



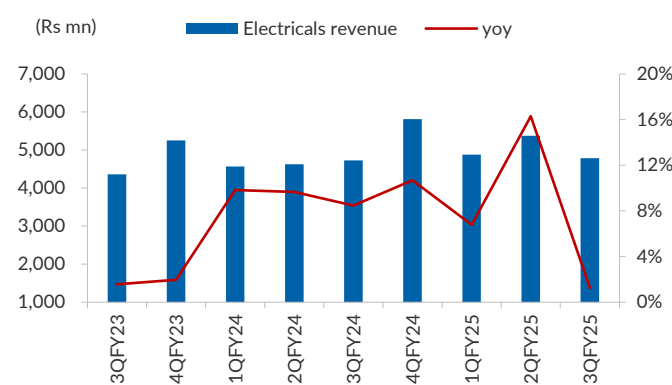
Source: Company, YES Sec

**Exhibit 7: Margins in electronics segment continues to remain healthy**



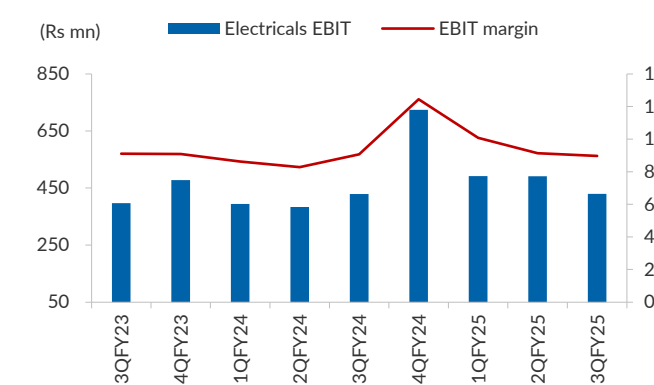
Source: Company, YES Sec

**Exhibit 8: Channel de-stocking in wires has impacted electricals growth**



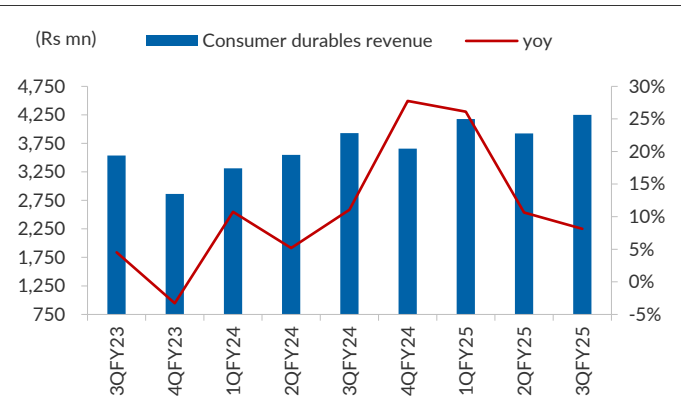
Source: Company, YES Sec

**Exhibit 9: Volatility in commodity prices have resulted in lower margins**



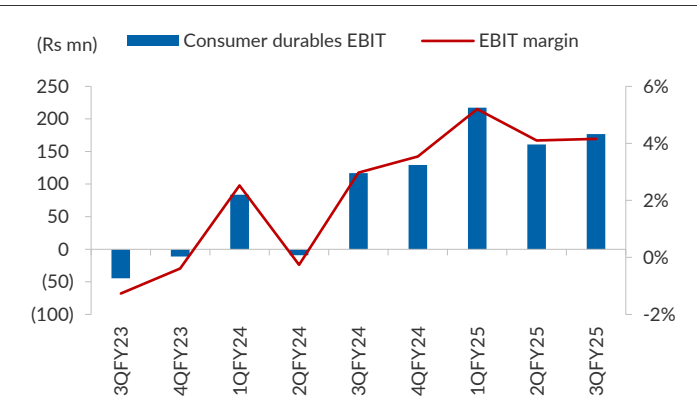
Source: Company, YES Sec

**Exhibit 10: Sluggish demand for Kitchen appliances has derailed consumer durables growth**



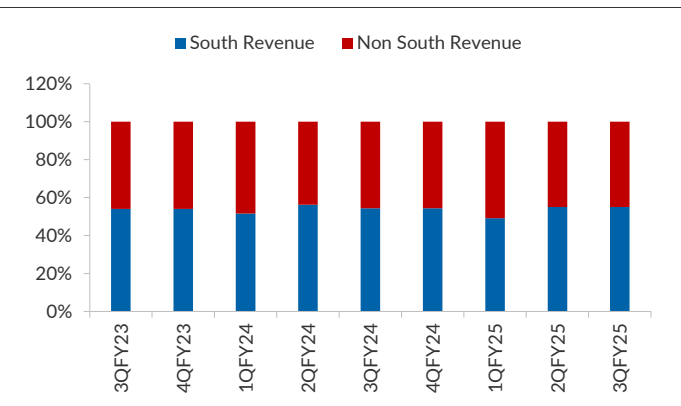
Source: Company, YES Sec

**Exhibit 11: Consumer durables margins continue to hover at mid-single digit.**



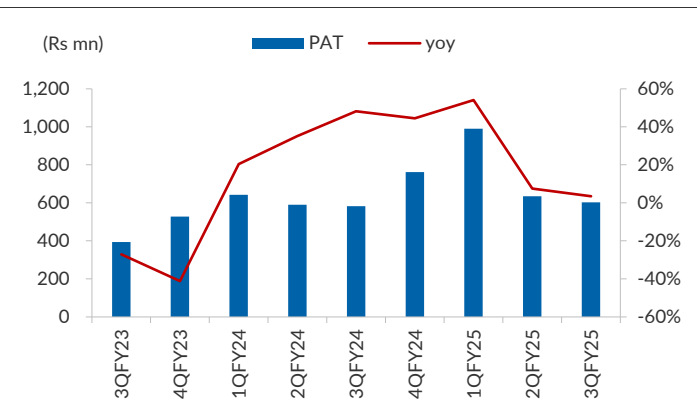
Source: Company, YES Sec

**Exhibit 12: Decline in wires due to commodity price volatility has impacted South market revenues**



Source: Company, YES Sec

**Exhibit 13: PAT growth is inline with EBITDA**



Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Business update** – South market consist larger share for wires, volatility in copper prices has impacted wires segment and hence moderate growth in southern market. Non-wires portfolio only water heater has faced challenges on delayed on set of winter. Kitchen appliances have seen demand challenges for second consecutive year
- **Margin** – Endeavor is reach 10% EBITDA margin. Negative operating leverage has resulted in lower margin in Q3
- **Wires** – Copper prices have appreciated in month of Jan and up stocking from the dealer has been observed for the month of January, hence January has been much better for wires.
- **Gross margins** – Largely gross margin improvement has been done with most of the manufacturing what company wanted to do inhouse only TPW and ceiling fans plant is expected to come in next 18 months
- **VCPL** – The company will infuse Rs1bn to setup manufacturing plant at Hyderabad which will manufacture TPW and ceiling fans. Entire expansion will be done through internal accruals
- **Kitchen** – Small kitchen appliances are largely penetrated as compared to other products and also it is bearing brunt of inflation on lower income group impacting demand.
- **Consumer durables** – Switches and Switchgear has seen decent growth, there has been some sluggishness in switches. Fans has done decently well, however the company is smaller in size as compared to other players.
- **Sunflame** – Brand strength is intact, Industry wide and channel wide issues have impacted Sunflame performance. GT has done well for Sunflame. CSD has impacted the performance which has been transient and CSD channel will improve for Sunflame. Ex of CSD Sunflame would have grown in single digit
- **Insourcing** – On the consolidated level 65% of the products sold have been manufactured inhouse. Company expects 75% of the revenue to come from inhouse manufacturing.
- **Solar roof-top** – There is huge demand for the brand and service, V-Guard is pioneer in giving service resulting in better customer satisfaction.
- **Fans** – Share of premium fans has seen substantial increase after Rourkee facility was started
- **A&P Spends** – A&P spends have been higher as company has done activity during Diwali festival for Sunflame
- **Employee expenses** – Employee expenses have been higher as in last year there was write back of Variable pay and hence growth is higher.

## FINANCIALS

### Exhibit 14: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	435	434	434	434	434
Reserves	15,644	17,708	20,057	22,927	26,325
Net worth	16,079	18,142	20,492	23,362	26,760
Debt	4,196	2,910	4,229	3,977	3,237
Deferred tax liab (net)	1,033	1,017	1,017	1,017	1,017
Other non current liabilities	1,065	1,061	1,211	1,362	1,520
Total liabilities	22,372	23,130	26,948	29,718	32,534
Fixed Asset	11,652	12,364	12,462	12,550	12,576
Investments	353	1,024	1,024	1,024	1,024
Other Non-current Assets	2,013	2,152	2,224	2,297	2,374
Net Working Capital	7,685	7,016	9,265	10,434	11,653
Inventories	7,674	8,118	11,322	12,738	14,218
Sundry debtors	5,687	5,958	7,437	8,367	9,339
Loans and Advances	1,021	1,423	1,623	1,826	2,038
Sundry creditors	4,885	5,500	7,664	8,623	9,625
Other current liabilities	1,166	2,128	2,427	2,731	3,048
Cash & equivalents	669	574	1,973	3,412	4,907
Total Assets	22,372	23,130	26,948	29,718	32,534

Source: Company, YES Sec

### Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	41,272	48,567	55,396	62,322	69,564
Operating profit	3,201	4,267	5,152	5,983	6,887
Depreciation	644	808	965	1,026	1,087
Interest expense	162	395	296	278	227
Other income	162	340	219	341	371
Profit before tax	2,557	3,404	4,110	5,020	5,944
Taxes	644	827	1,034	1,263	1,496
Minorities and other	(1)	-	-	-	-
Adj. profit	1,914	2,577	3,076	3,756	4,448
Exceptional items	-	-	-	-	-
Net profit	1,914	2,577	3,076	3,756	4,448

Source: Company, YES Sec

## Exhibit 16: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	2,719	3,800	4,406	5,298	6,171
Depreciation	644	808	965	1,026	1,087
Tax paid	(644)	(827)	(1,034)	(1,263)	(1,496)
Working capital Δ	856	368	(2,248)	(1,170)	(1,219)
Other operating items					
Operating cashflow	3,576	4,148	2,088	3,891	4,543
Capital expenditure	(8,277)	(1,520)	(1,063)	(1,113)	(1,113)
Free cash flow	(4,701)	2,629	1,025	2,778	3,430
Equity raised	661	95	-	-	0
Investments	(15)	(371)	-	-	-
Debt financing/disposal	4,023	(1,286)	1,318	(251)	(740)
Interest paid	(162)	(395)	(296)	(278)	(227)
Dividends paid	(566)	(608)	(726)	(887)	(1,050)
Net Δ in cash	56	(95)	1,399	1,440	1,495

Source: Company, YES Sec

## Exhibit 17: Du-pont analysis

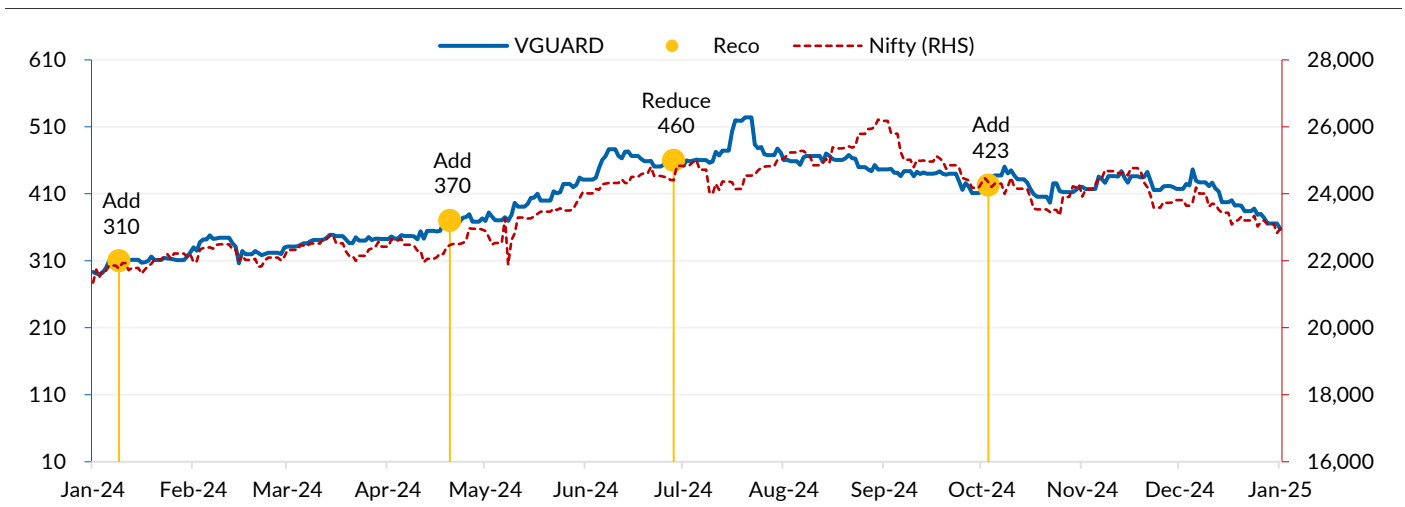
Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.75	0.76	0.75	0.75	0.75
Interest burden (x)	0.94	0.90	0.93	0.95	0.96
EBIT margin (x)	0.07	0.08	0.08	0.09	0.09
Asset turnover (x)	1.65	1.60	1.59	1.55	1.57
Financial leverage (x)	1.66	1.77	1.80	1.83	1.77
RoE (%)	12.7	15.1	15.9	17.1	17.7

## Exhibit 18: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Revenue growth	17.9	17.7	14.1	12.5	11.6
Op profit growth	(5.9)	33.3	20.7	16.1	15.1
EBIT growth	(9.9)	39.7	16.0	20.2	16.5
Net profit growth	(12.7)	34.6	19.4	22.1	18.4
<b>Profitability ratios (%)</b>					
OPM	7.8	8.8	9.3	9.6	9.9
EBIT margin	6.6	7.8	8.0	8.5	8.9
Net profit margin	4.6	5.3	5.6	6.0	6.4
RoCE	15.8	18.4	19.3	20.4	21.5
RoNW	12.7	15.1	15.9	17.1	17.7

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
RoA	7.6	8.5	8.8	9.4	10.0
<b>Per share ratios</b>					
EPS	4.4	5.9	7.1	8.6	10.2
Dividend per share	1.3	1.4	1.7	2.0	2.4
Cash EPS	5.9	7.8	9.3	11.0	12.7
Book value per share	37.0	41.8	47.2	53.8	61.6
<b>Valuation ratios</b>					
P/E	81.1	60.2	50.4	41.3	34.9
P/CEPS	60.7	45.8	38.4	32.4	28.0
P/B	9.7	8.5	7.6	6.6	5.8
EV/EBIDTA	49.6	36.9	30.5	26.0	22.3
<b>Payout (%)</b>					
Dividend payout	29.5	23.6	23.6	23.6	23.6
Tax payout	25.2	24.3	25.2	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	50.3	44.8	49.0	49.0	49.0
Inventory days	67.9	61.0	74.6	74.6	74.6
Creditor days	43.2	41.3	50.5	50.5	50.5

## Recommendation Tracker





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Analyst signature

Analyst signature

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