

November 01, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Durables

V-Guard Industries Ltd

2H to see strong demand recovery; reiterate ADD

Result Synopsis

VGRD reported inline revenue growth of 15.0% aided by consolidation of Sunflame appliances. Excluding sunflame appliances revenue growth stood at 8.7%. The growth was led by electronics segment which grew by 12.1%, while electricals and consumer durables revenue grew by 9.6% and 5.1% respectively. VGRD's non-south growth of 11.3% significantly outperformed south which saw growth meager growth 6.7% yoy. Gross margins for the quarter expanded by 452bps yoy on back of softening of commodity prices and is now moving towards pre-covid levels. Company's recent acquisition of Sunflame appliances is facing some demand headwinds, this is largely on account of some product gaps and issues with after sales service. The company expects growth from Sunflame appliances in 2H as issues has been resolved. Management has however cut it revenue guidance for Sunflame appliances and now expects revenue for Sunflame appliances to remain flat for FY24. VGRD has started to make inroads in the non-south market and its efforts in increasing inhouse manufacturing is bearing fruits as seen from the gross margin improvement. We feel that there is further improvement in gross margins as the new manufacturing stabilize and scale increase. Improvement in gross margins should translate into higher EBITDA margin going forward. We expect synergy benefits from Sunflame appliances to accrue as new management has stabilized and they have started to implement their strategies. Considering further scope of margin improvement and potential of industry leading growth we continue to maintain our ADD rating.

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 growing significantly faster than the Southern market. Moreover, material margins are coming closer to the pre-covid levels. We are factoring FY23-25E Revenue/EBITDA/PAT CAGR of 17%/33%/36% and continue to value company at 40x resulting in PT of Rs329 maintaining our ADD rating.

Result Highlights

- Quarter summary** - V-guard has registered revenue growth 19% YoY aided by consolidation of Sunflame appliances. Ex of Sunflame integration the revenue growth has been 8.7%. Electronics has led revenue growth by growing in double digit, while electricals and electronics segment has grown in high to mid-single digit.
- Margin** - Gross margin has expanded on back of softening of commodity prices. Gross margins have expanded by 452bps and now is close to the pre-covid levels. EBITDA margin showed improvement of just 78bps despite sharp improvement in gross margins led by higher employee and other expense.
- South vs Non-south** - South market grew 6.7%, while non-south market has seen growth of 11.3%. Contribution of non-south revenue has increased to 43.8% vs 42.7% in Q2FY23
- Working capital** - Working capital continues to see improvement with NWC coming in at 68 days vs 91 days in Q2FY23. Improvement is on back of normalization of the inventory.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	11,338	11,367	11,370	-0.3	-0.3	Higher employee and other operating expenses has resulted in lower margin .
EBITDA	925	996	970	-7.2	-4.6	
EBITDA Margin (%)	8.2	8.8	8.5	-60 bps	-30 bps	
Adjusted PAT	590	547	550	7.7	7.3	

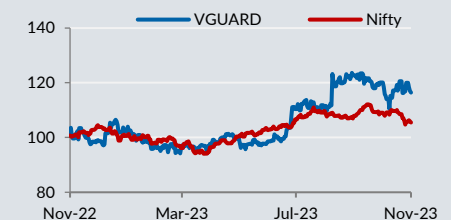
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 298
Target Price	: Rs 329
Potential Return	: +11.1%

Stock data (as on November 01, 2023)

Nifty	18,989
52 Week h/l (Rs)	335 / 229
Market cap (Rs/USD mn)	129885 / 1560
Outstanding Shares (mn)	434
6m Avg t/o (Rs mn):	86
Div yield (%):	0.4
Bloomberg code:	VGRD IN
NSE code:	VGUARD

Stock performance



	1M	3M	1Y
Absolute return	-3.0%	5.4%	14.9%

Shareholding pattern (As of Sep'23 end)

Promoter	55.6%
FII+DII	32.5%
Others	11.9%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	329	345

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	6.0	8.2
EPS (Old)	6.7	8.6
% change	-10.4%	-4.7%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	41,260	49,843	56,027
YoY Growth	17.9%	20.8%	12.4%
EBIDTA	3,199	4,286	5,659
YoY Growth	-6.0	34.0	32.0
PAT	1,914	2,602	3,554
YoY Growth	-12.7%	35.9%	36.6%
ROE	12.7	15.4	18.6
EPS	4.4	6.0	8.2
P/E	66.8	49.2	36.0
BV	37.2	41.2	47.3
EV/EBITDA	41.1	30.3	22.6

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Sales	9,861	9,808	11,401	12,148	11,338	15.0	(6.7)	23,485	20,044	17.2
EBITDA	727	659	987	1048	925	27.2	(11.7)	1,972	1,548	27.5
EBITDA Margin %	7.4	6.7	8.7	8.6	8.2			8.4	7.7	
Depreciation	150	167	191	198	198	32.0	0.1	396	287	38.0
EBIT	577	492	796	850	727	25.9	(14.4)	1,577	1,261	25.1
EBIT Margin %	5.9	5.0	7.0	7.0	6.4			6.7	6.3	
Interest charges	19	24	102	109	93	401.9	(14.0)	202	37	452.0
Other Income	33	60	26	118	142	331.1	20.1	260	84	208.9
PBT	592	529	721	859	775	31.0	(9.8)	1,634	1,308	24.9
Tax	155	136	193	217	186	19.7	(14.4)	403	338	19.1
Effective Tax Rate (%)	26.2	25.6	26.8	25.2	23.9			24.6	25.8	
PAT	437	393	527	642	590	35.1	(8.2)	1,232	970	27.0
PAT Margin %	4.4	4.0	4.6	5.3	5.2			5.2	4.8	
EPS (Rs)	1.0	0.9	1.2	1.5	1.4	35.1	(8.2)	2.9	2.2	27.0

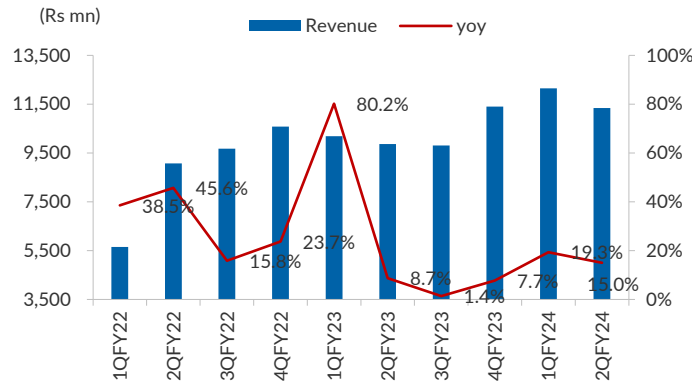
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Electronics	2,274	1,914	2,717	3,637	2,551	12.2	(29.9)	6,188	5,307	2,274
Electricals	4,216	4,358	5,253	4,567	4,623	9.6	1.2	9,190	8,375	4,216
Consumer Durables	3,372	3,537	2,862	3,312	3,547	5.2	7.1	6,858	6,362	3,372
Sunflame			570	632	617	#DIV/0!	(2.3)	1,249	0	
Net Sales	9,861	9,808	11,402	12,148	11,337	15.0	(6.7)	23,485	20,044	9,861
PBIT										
Electronics	332.9	221.6	325.2	584.6	378.0	13.6	(35.3)	963	762	332.9
Electricals	228.4	396.7	477.5	289.9	383.2	67.8	32.2	673	511	228.4
Consumer Durables	96.8	-44.7	-11.3	8.8	-9.2	(109.5)	(204.5)	0	135	96.8
Sunflame			80.0	58.4	58.4			117	0	
Total PBIT	658	574	871	942	810	23.1	(13.9)	1,635	1,408	658
Finance Costs	18.5	23.9	101.6	108.5	93.3	404.3	(14.0)	202	36	18.5
Unallocable expense	48	21	49	-26	-80	(266.0)	207.3	-106	63	48
as % of sales	0.5	0.2	0.4	-0.2	-0.7			(0.4)	1	0.5
Exceptional Items	0	0	0	0	0			0	0	0
PBT	592	528	721	859	797	34.7	(7.3)	1,539	1,308	592
PBIT Margins (%)						(bps)	(bps)			(bps)
Electronics	14.6	11.6	12.0	16.1	14.8	18	(125)	15.6	14.4	14.6
Electricals	5.4	9.1	9.1	6.3	8.3	287	194	7.3	6.1	5.4
Consumer Durables	2.9	(1.3)	(0.4)	0.3	(0.3)	(313)	(53)	(0.0)	2.1	2.9
Sunflame			14.0	9.2	9.5		21	9.4		
Total PBIT	6.7	5.8	7.6	7.8	7.1	47	(60)	7.0	7.0	6.7

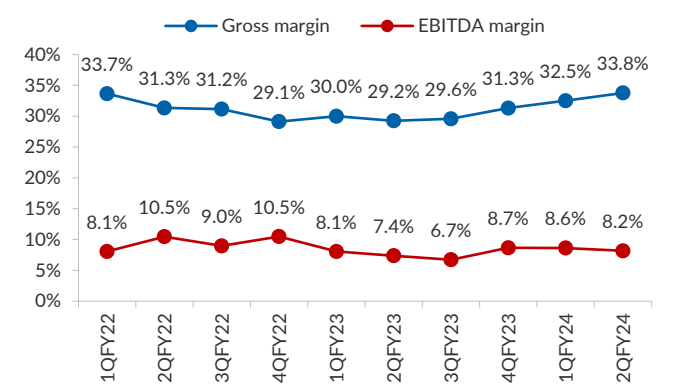
Source: Company, YES Sec

Exhibit 4: Revenue growth has been aided by consolidation of Sunflame appliances



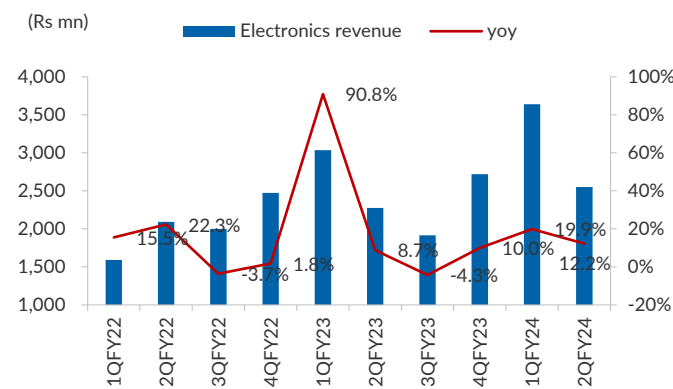
Source: Company, YES Sec

Exhibit 5: Softening of commodity prices have resulted in gross margin expansion



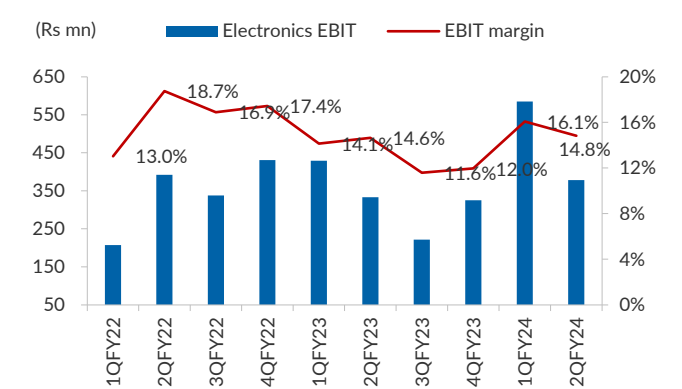
Source: Company, YES Sec

Exhibit 6: Electronics growth has made strong come-back



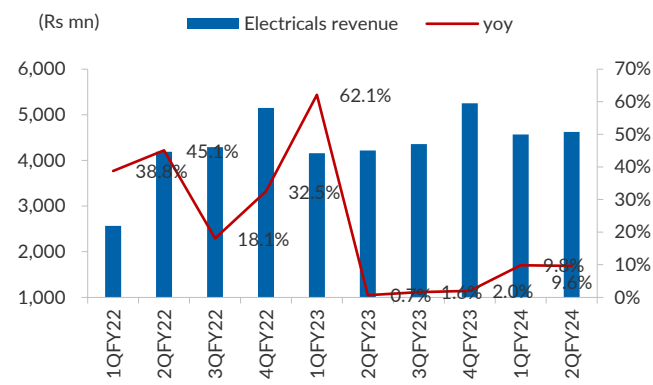
Source: Company, YES Sec

Exhibit 7: Operating leverage has resulted in margin expansion



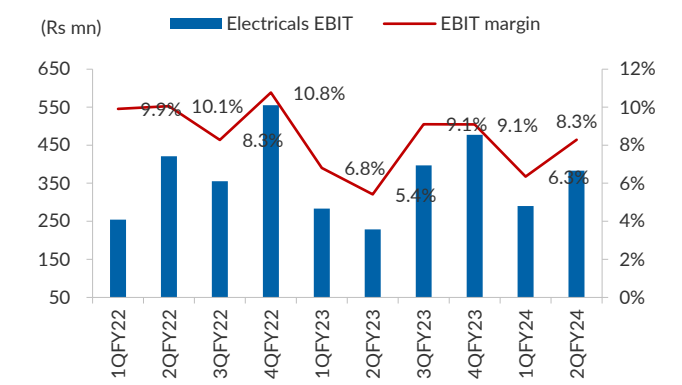
Source: Company, YES Sec

Exhibit 8: Electricals revenue growth has been lower than peers



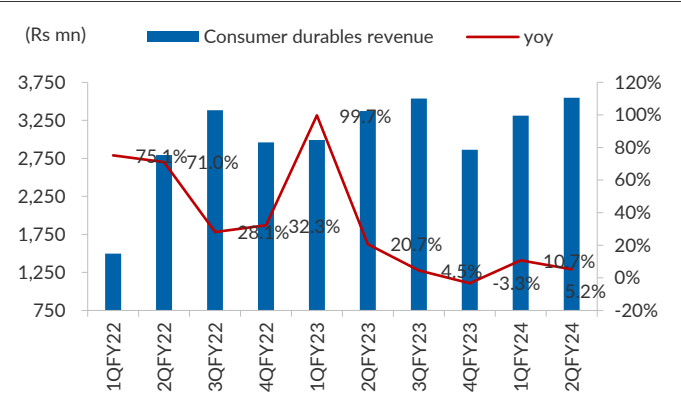
Source: Company, YES Sec

Exhibit 9: EBIT margin have been range bound



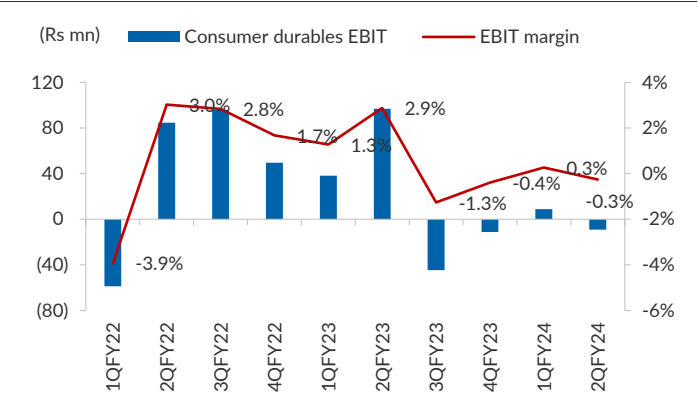
Source: Company, YES Sec

Exhibit 10: Consumer durables growth has slowed down subdued demand



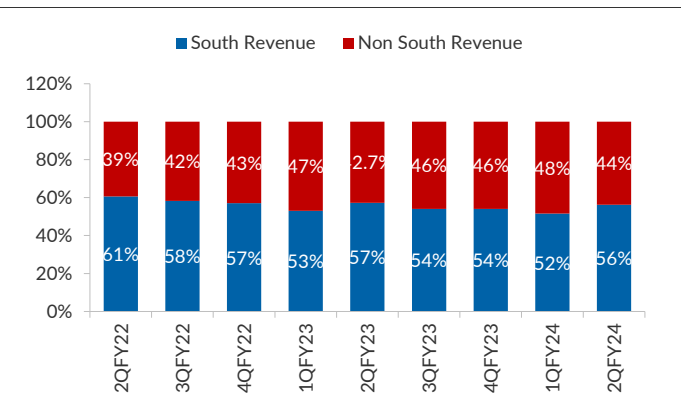
Source: Company, YES Sec

Exhibit 11: Negative operating leverage has resulted in EBIT loss



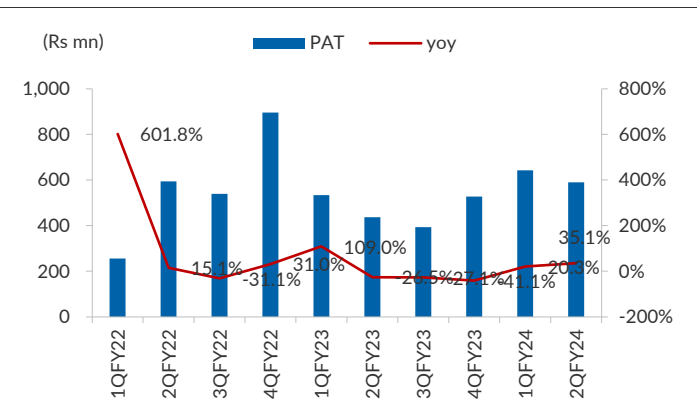
Source: Company, YES Sec

Exhibit 12: Non-south continues to outperform



Source: Company, YES Sec

Exhibit 13: Higher other income has resulted better than expected PAT



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Business update** – Subdued consumer demand for discretionary products has resulted lower revenue for the quarter.
- **Margins** – Gross margin has improved on back of softening commodity prices. There is further room for 100bps improvement in gross margin going forward.
- **Electricals** – V-guard has high presence in B2C segment, which has seen muted demand in Q2. In Pumps decline has been arrested and has started to grow, but not at the pace as it should have been.
- **Consumer durables** – There has been no price cuts by V-guard in Fans. However some players in the northern region has taken price discounts as demand has taken a hit in North. As far as air-coolers are concerned the company has reached annualized run rate of Rs900-1000mn which is lower.
- **Consumer durables margin** – The consumer durables EBIT margin is expected to be 5-6%. Margin improvement will take time as company still carries high cost inventory of the previous year in water heater which will be liquidated in current quarter post that margin expansion is expected. Growth in consumer durables business is lower than planned resulting in EBIT loss. Gross margin in consumer durables is yet to recover. Increased competition is resulting in price not being transmitted.
- **Sunflame Appliances** – Sunflame revenue has seen decline. Its decline is higher than peers as there have been some product gaps and issues with after sales services which has been resolved and company expects 2H to be better.
- **Water heater inventory** – Lower off-take of water heater will result in inventory of water heater stretching deep into the season. There could some pricing pressure in water as winter is yet to set in and demand has been muted
- **Employee costs** – There has been variable pay provision, resulting in Rs200mn swings as compared to last year. While on like to like basis the employee cost increase is 15-16%.
- **Other expense** – Travel cost increase has resulted in increased other expenditure. Outsourced manpower cost is now booked in other expenses vs being adjusted in gross margin which company was outsourcing.
- **Festive demand** – Fans are seeing traction on back of new launches. Water heater season is yet to start.
- **Pricing action** – **The company has not taken any price increase and all the growth has been the volume growth.** Celling fans costs are yet to be fully passed on to the consumer. Company expects the cost in Fans in next 9 months.
- **Water purifier** – Water purifiers are doing well, channel is happy with the offering and water purifier is the third largest category after water heater.
- **Working capital** – Company expects working capital to be around 68 days, with some marginal improvement.
- **Gegadyne investments** – The company is the strategic investor in the Gegadyne and will look at its product development and to get its product in V-guard.

FINANCIALS

Exhibit 14: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	430	432	432	432	432
Reserves	11,683	13,638	15,644	17,375	20,020
Net worth	12,160	14,124	16,076	17,807	20,452
Debt	130	118	4,196	3,186	2,367
Deferred tax liab (net)	0	0	1,033	1,033	1,033
Other non current liabilities	663	678	1,065	1,287	1,446
Total liabilities	12,953	14,920	22,369	23,313	25,297
Fixed Asset	3,890	4,019	11,652	12,047	12,064
Investments	337	337	353	353	353
Other Non-current Assets	513	1,409	2,013	2,185	2,309
Net Working Capital	5,401	8,543	7,683	7,411	8,345
Inventories	6,315	8,596	7,674	8,876	9,977
Sundry debtors	3,881	4,841	5,687	7,825	8,795
Loans and Advances	995	1,247	1,021	1,234	1,387
Sundry creditors	4,747	4,535	4,885	8,285	9,312
Other current liabilities	503	1,104	1,166	1,409	1,584
Cash & equivalents	2,812	613	669	1,317	2,226
Total Assets	12,953	14,920	22,370	23,313	25,297

Source: Company, YES Sec

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	27,212	35,002	41,260	49,843	56,027
Operating profit	3,121	3,402	3,199	4,286	5,659
Depreciation	386	491	644	795	848
Interest expense	61	79	162	350	260
Other income	207	108	164	335	198
Profit before tax	2,881	2,940	2,557	3,476	4,748
Taxes	862	740	644	875	1,195
Minorities and other	11	7	(1)	(1)	(1)
Adj. profit	2,008	2,192	1,914	2,602	3,554
Exceptional items	-	-	-	-	-
Net profit	2,008	2,192	1,914	2,602	3,554

Source: Company, YES Sec

Exhibit 16: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	2,942	3,018	2,719	3,826	5,008
Depreciation	386	491	644	795	848
Tax paid	(862)	(740)	(644)	(875)	(1,195)
Working capital Δ	126	(3,141)	859	272	(935)
Other operating items					
Operating cashflow	2,593	(371)	3,579	4,019	3,727
Capital expenditure	(766)	(621)	(8,277)	(1,190)	(866)
Free cash flow	1,827	(992)	(4,698)	2,829	2,861
Equity raised	666	325	582	(205)	-
Investments	(334)	-	(15)	-	-
Debt financing/disposal	13	(5)	4,023	(1,010)	(819)
Interest paid	(61)	(79)	(162)	(350)	(260)
Dividends paid	(516)	(561)	(490)	(666)	(909)
Net Δ in cash	1,696	(2,199)	56	649	908

Source: Company, YES Sec

Exhibit 17: Du-pont analysis

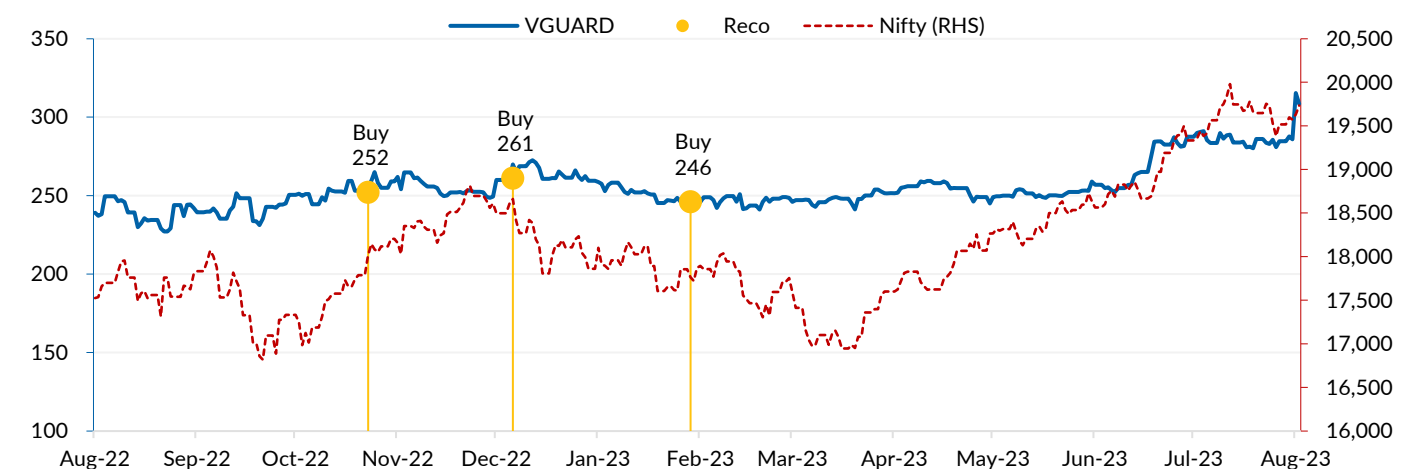
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	8.7	28.6	17.9	20.8	12.4
Interest burden (x)	21.0	9.0	(6.0)	34.0	32.0
EBIT margin (x)	15.9	2.6	(9.9)	40.7	30.9
Asset turnover (x)	7.3	9.2	(12.7)	35.9	36.6
Financial leverage (x)	8.7	28.6	17.9	20.8	12.4
RoE (%)	21.0	9.0	(6.0)	34.0	32.0

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	8.7	28.6	17.9	20.9	9.5
Op profit growth	21.0	8.4	(5.4)	45.1	20.1
EBIT growth	15.9	2.6	(9.9)	49.1	23.0
Net profit growth	7.3	9.0	(13.1)	44.3	25.4
Profitability ratios (%)					
OPM	11.5	9.7	7.8	8.6	10.1
EBIT margin	10.8	8.6	6.6	7.7	8.9
Net profit margin	7.4	6.3	4.6	5.2	6.3
RoCE	26.3	22.8	15.8	18.5	22.9
RoNW	18.2	16.7	12.7	15.4	18.6

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoA	12.1	11.0	7.6	8.3	10.0
Per share ratios					
EPS	4.7	5.1	4.4	6.0	8.2
Dividend per share	1.2	1.3	1.1	1.5	2.1
Cash EPS	5.6	6.2	5.9	7.9	10.2
Book value per share	28.3	32.7	37.2	41.2	47.3
Valuation ratios					
P/E	63.4	58.3	66.8	49.2	36.0
P/CEPS	53.2	47.6	50.0	37.7	29.1
P/B	10.5	9.1	8.0	7.2	6.3
EV/EBIDTA	39.9	37.4	41.1	30.3	22.6
Payout (%)					
Dividend payout	25.7	25.6	25.6	25.6	25.6
Tax payout	29.9	25.2	25.2	25.2	25.2
Liquidity ratios					
Debtor days	52.1	50.5	50.3	57.3	57.3
Inventory days	84.7	89.6	67.9	65.0	65.0
Creditor days	63.7	47.3	43.2	60.7	60.7

Recommendation Tracker



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DISCLOSURE OF INTEREST

Name of the Research Analyst : Aakash Fadia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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