

October 30, 2024

RESULT REPORT Q2 FY25 | Sector: Consumer Durables

V-Guard Industries Ltd

Ex of Sunflame other businesses are on sound footing; Upgrade to ADD

Result Synopsis

VGRD reported inline revenue growth of 14.1% driven by strong performance of electronics segment (+18.8%) followed by Electricals (+16.3%). Consumer durables revenue grew 10.6%, while Sunflame Appliances revenue declined 1.1% on yoy basis. Non-south revenue grew 16.9%, while south revenue grew 13.6%. Sunflame appliances revenue de-growth was attributed to lower demand for kitchen appliances and significant decline in CSD orders. Gross margins for the quarter expanded by 207bps yoy on back of continued moderation in input costs, benefit of pricing actions and cost effectiveness. Company believes gross margin has further room for expansion as company's gross margins are still 1.5% below pre-covid levels. 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 and rolling forward our target multiple to FY27 EPS we upgrade the stock to ADD with the revised PT of Rs467.

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 14%/20%/23% and our EPS for FY26 gets trimmed largely on account of some restructuring in sunflame appliances. We, however upgrade our rating to ADD 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 14.1% YoY driven by strong growth in Electronics and Electricals which grew 18.8% and 16.3% respectively yoy basis, Consumer durables have grown at 10.6% yoy, while sunflame has registered marginal decline.
- Margin** - Gross margin has expanded on moderation in input costs, pricing actions and cost effectiveness. Gross margins have expanded by 207bps company believes margin recovery is not yet fully complete, there is scope for another 100bps improvement. EBITDA margin showed improvement of 36bps on higher gross margins.
- South vs Non-south** - South markets witnessed a YoY growth of 14% whereas non-South markets grew by 17% in Q2FY25. Non-south market contribution stands at 45%.
- Debt** - The company now has net cash of Rs42.6mn vs net debt of Rs1596mn as on Q2FY24. 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	12,940	13,031	NA	-0.7	NA	Revenue growth was in line with estimates.
EBITDA	1,103	1,287	NA	-13.7	NA	
EBITDA Margin (%)	8.5	9.8	NA	-130 bps	NA bps	
Adjusted PAT	634	780	NA	18.7	NA	

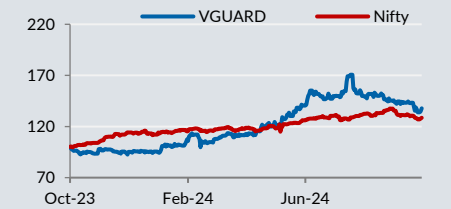
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 423
Target Price	: Rs 467
Potential Return	: 10.5%

Stock data (as on Oct 30, 2024)

Nifty	24,341
52 Week h/l (Rs)	577 / 283
Market cap (Rs/USD mn)	185699 / 2209
Outstanding Shares (mn)	435
6m Avg t/o (Rs mn):	290
Div yield (%)	0.3
Bloomberg code:	VGRD IN
NSE code:	VGUARD

Stock performance



	1M	3M	1Y
Absolute return	-5.4%	-7.7%	39.6%

Shareholding pattern (As of Sep'24 end)

Promoter	54.5%
FII+DII	33.7%
Others	11.9%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	REDUCE
Target Price	467	444

Δ in earnings estimates

	FY26e	FY27e
EPS (New)	9.3	11.1
EPS (Old)	10.6	NA
% change	-12.3%	NA%

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	56,458	63,532	70,928
YoY Growth	16.2%	12.5%	11.6%
EBITDA	5,476	6,353	7,376
YoY Growth	28.3	16.0	16.1
PAT	3,302	4,020	4,833
YoY Growth	28.1%	21.7%	20.2%
ROE	17.0	18.1	18.9
EPS	7.6	9.3	11.1
P/E	55.7	45.7	38.0
BV	47.6	54.6	63.1
EV/EBITDA	34.0	29.0	24.7

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Sales	11,338	11,654	13,428	14,771	12,940	14.1	(12.4)	27,711	23,485	18.0
EBITDA	925	1016	1279	1558	1103	19.2	(29.2)	2,660	1,972	34.9
EBITDA Margin %	8.2	8.7	9.5	10.5	8.5			9.6	8.4	
Depreciation	198	191	222	217	221	11.7	1.7	438	396	10.8
EBIT	727	825	1057	1340	882	21.3	(34.2)	2,222	1,577	40.9
EBIT Margin %	6.4	7.1	7.9	9.1	6.8			8.0	6.7	
Interest charges	93	94	99	86	76	(18.8)	(11.8)	162	202	(19.9)
Other Income	142	32	49	69	41	(71.4)	(41.4)	110	260	(57.8)
PBT	775	763	1006	1324	846	9.1	(36.1)	2,170	1,634	32.8
Tax	186	180	245	334	212	14.4	(36.4)	546	403	35.7
Effective Tax Rate (%)	23.9	23.6	24.3	25.2	25.1			25.2	24.6	
PAT	590	582	762	990	634	7.5	(36.0)	1,624	1,232	31.8
PAT Margin %	5.2	5.0	5.7	6.7	4.9			5.9	5.2	
EPS (Rs)	1.4	1.3	1.8	2.3	1.5	7.5	(36.0)	3.8	2.9	31.8

Source: Company, YES Sec

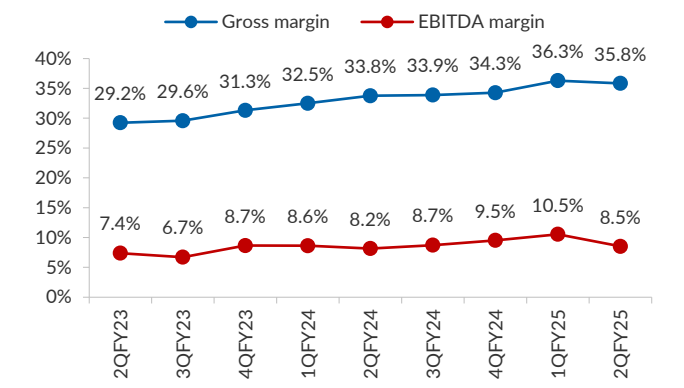
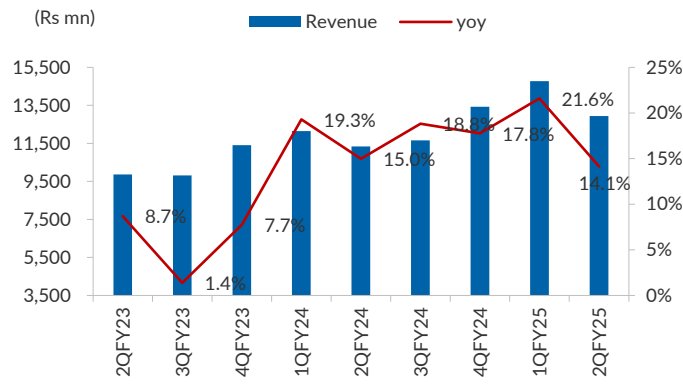
Exhibit 3: Segmental Performance

Rs mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Electronics	2,551	2,236	3,228	5,131	3,030	18.8	(41.0)	8,161	6,188	31.9
Electricals	4,623	4,727	5,814	4,877	5,376	16.3	10.2	10,253	9,190	11.6
Consumer Durables	3,547	3,928	3,657	4,176	3,923	10.6	(6.1)	8,100	6,858	18.1
Sunflame	617	763	730	587	611	(1.1)	4.1	1,197	1,249	(4.1)
Net Sales	11,338	11,654	13,428	14,771	12,940	14.1	(12.4)	27,711	23,485	18.0
PBIT										
Electronics	378.0	287.4	483.1	1035.1	594.5	57.3	(42.6)	1,630	1,049	55.4
Electricals	383.2	428.8	724.1	491.7	491.2	28.2	(0.1)	983	777	26.5
Consumer Durables	-9.2	116.8	129.3	217.3	160.8	(1,847.8)	(26.0)	378	74	408.9
Sunflame	37.0	82.1	73.2	27.3	8.6	(76.8)	(68.5)	36	102	(64.7)
Total PBIT	789	915	1,410	1,771	1,255	59.1	(29.1)	3,027	2,002	51.2
Finance Costs	93.3	94.2	99.4	85.9	75.8	(18.8)	(11.8)	162	202	(19.9)
Unallocable expense	-80	58	304	362	333	(518.5)	(8.0)	695	166	319.2
as % of sales	-0.7	0.5	2.3	2.5	2.6		5.1	2.5	1	
Exceptional Items	0	0	0	0	0			0	0	
PBT	775	763	1006	1324	846	9.1	(36.1)	2,170	1,634	32.8
PBIT Margins (%)						(bps)	(bps)			(bps)
Electronics	14.8	12.9	15.0	20.2	19.6	480	(55)	20.0	16.9	302
Electricals	8.3	9.1	12.5	10.1	9.1	85	(95)	9.6	8.5	113
Consumer Durables	(0.3)	3.0	3.5	5.2	4.1	436	(110)	4.7	1.1	358
Sunflame	6.0	10.8	10.0	4.7	1.4	(459)	(325)	3.0	8.1	(515)
Total PBIT	7.0	7.9	10.5	12.0	9.7	274	(229)	10.9	8.5	240

Source: Company, YES Sec

Exhibit 4: Revenue growth has been driven by strong demand momentum for summer products

Exhibit 5: Softening of commodity prices followed by pricing actions and cost effectiveness has resulted in strong gross margin expansion

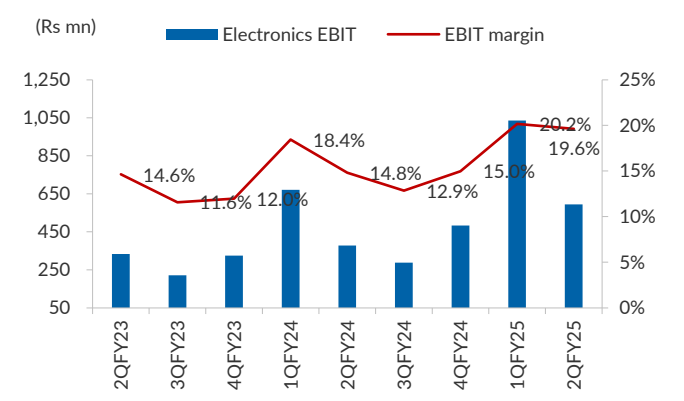
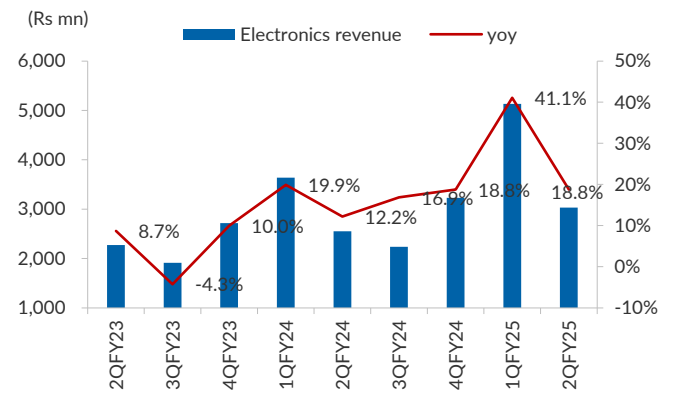


Source: Company, YES Sec

Source: Company, YES Sec

Exhibit 6: Electronics continues to deliver strong growth even in off season

Exhibit 7: Better product mix and operating leverage result in strong margin

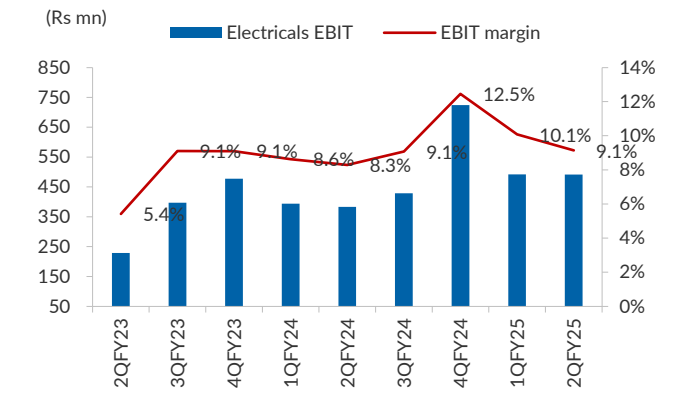
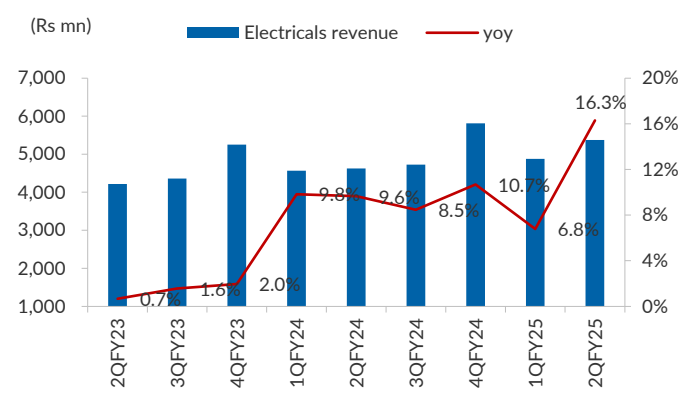


Source: Company, YES Sec

Source: Company, YES Sec

Exhibit 8: Electricals revenue growth is on account of growth in wires

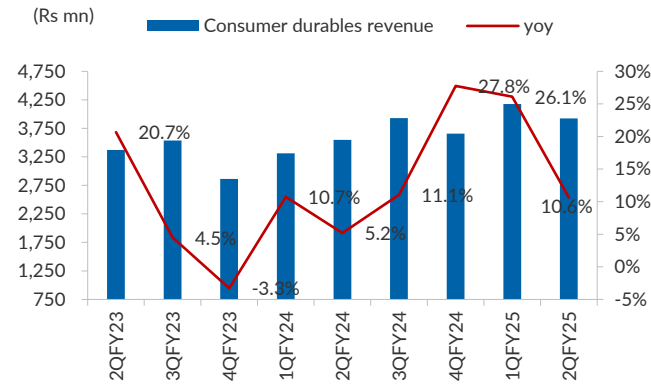
Exhibit 9: Volatility in commodity prices have resulted in lower margins



Source: Company, YES Sec

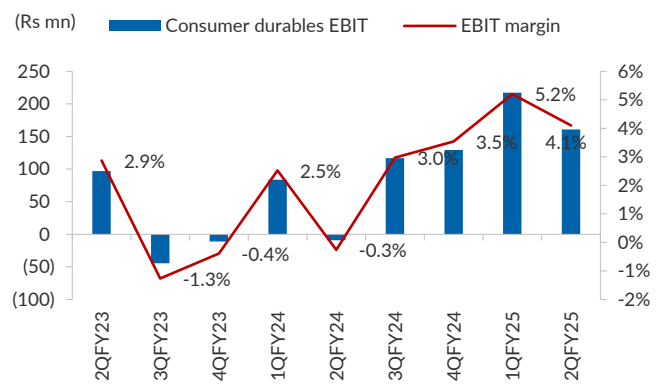
Source: Company, YES Sec

Exhibit 10: Sluggish demand for water heater has derailed consumer durables growth



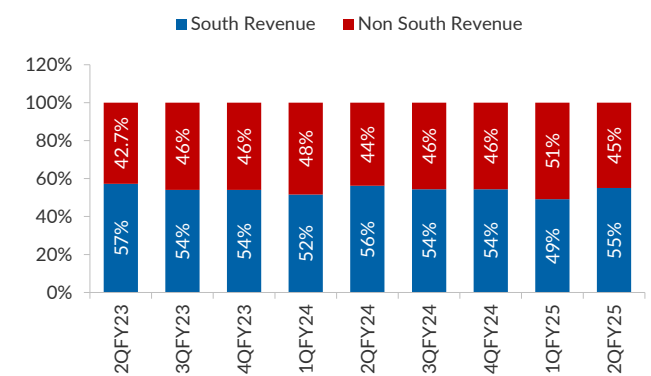
Source: Company, YES Sec

Exhibit 11: Operating leverage coupled with pricing action results in higher margin



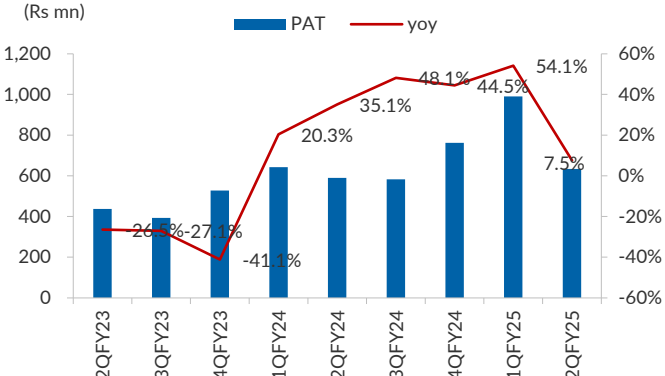
Source: Company, YES Sec

Exhibit 12: Non-south contribution has been steady



Source: Company, YES Sec

Exhibit 13: PAT has grown inline with EBITDA



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Business update** – Strong demand momentum for summer products in Q1 has carried over to Q2 as well, the company is developing solar power products which is technology for the future. Sunflame Appliances has seen decline as there has been CSD order reduction, while general trade has seen growth. Eastern market is affected by monsoon which has been strong market for V-guard
- **Margins** – Gross margin has improved on back of increased in-house manufacturing, premiumization and cost reduction. EBITDA margin was impacted on account of higher than normal A&P spends and travel expense. The company's gross still 1-1.5% lower than the pre-covid levels.
- **Other income** – Other income stood at Rs40mn vs Rs140mn in Q2FY24 as in the base quarter there was fair value gain of Gigadyne investments.
- **Inhouse manufacturing vs outsourcing** – The company manufacture 65% of the products in-house vs 35% of the outsourced
- **Water heater** – Water heater has been muted as post monsoon heat has increased in many parts of the country resulting in slower demand
- **Consumer durables** – Consumer durables growth has been impacted by slowdown in water heater and some slowdown in kitchen demand, others products have done well for the company.
- **Wires** – Wires sales and margin has been impacted as there has been volatility in copper prices, that is the nature of the business
- **Sunflame** – Took 5-6 months to put new management team in place post-acquisition. Gross margins of Sunflame has been on track. Modern trade, ecomm business is a long gestation period currently in transition period. Now with the transition nearly complete it will take next 3-4 quarters for its revenue coming back fully. Business to start to grow in 2nd half on back of growth in GT. Margins in Q3 will be better than Q2.
- **Electronics** – Electronics margins has been growing as volumes are growing and in-house manufacturing. Electronics as a category is expected to grow at 12-14%. Solar products contribution has been low but can become a big category.
- **Electricals** – Electricals have seen growth on strong performance of wires and cables
- **Employee costs** – Employee costs are higher as there have been addition of new manufacturing facilities. On like to like basis the employee cost growth has been in 13-14% range. Employee cost will normalize once all the plants are commissioned which is expected by Q4 and FY25 will have the base for FY26 employee expenses.
- **Festive sales** – Month of October has seen strong traction as in the base year Diwali was in the month of November, hence Q3 will give full picture of the demand
- **Channel inventory** – Channel inventory is at the normalized levels
- **Pricing** – The company has taken small price increase to cover the increased raw material costs.
- **Capacity utilization and Capex** – Capex plan would be Rs1bn/year. Capacity utilization will be different for different products
- **Kitchen appliances** – Kitchen appliances for Sunflame and V-guard is flat as kitchen category is facing demand challenges
- **Consumer durables** – Consumer durables business scaleup would be the focus and improve EBITDA margins. Apart from that Switches and Switchgears will another growth area

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	20,230	23,301	26,994
Net worth	16,079	18,142	20,665	23,736	27,428
Debt	4,196	2,910	4,267	4,021	3,286
Deferred tax liab (net)	1,033	1,017	1,017	1,017	1,017
Other non current liabilities	1,065	1,061	1,233	1,388	1,550
Total liabilities	22,372	23,130	27,182	30,162	33,281
Fixed Asset	11,652	12,364	12,571	12,776	12,930
Investments	353	1,024	1,024	1,024	1,024
Other Non-current Assets	2,013	2,152	2,235	2,310	2,388
Net Working Capital	7,685	7,016	9,463	10,643	11,875
Inventories	7,674	8,118	11,539	12,985	14,496
Sundry debtors	5,687	5,958	7,579	8,529	9,522
Loans and Advances	1,021	1,423	1,654	1,861	2,078
Sundry creditors	4,885	5,500	7,811	8,790	9,813
Other current liabilities	1,166	2,128	2,474	2,784	3,108
Cash & equivalents	669	574	1,889	3,409	5,064
Total Assets	22,372	23,130	27,182	30,162	33,281

Source: Company, YES Sec

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	41,272	48,567	56,458	63,532	70,928
Operating profit	3,201	4,267	5,476	6,353	7,376
Depreciation	644	808	856	908	960
Interest expense	162	395	427	402	329
Other income	162	340	219	329	371
Profit before tax	2,557	3,404	4,412	5,372	6,459
Taxes	644	827	1,111	1,352	1,626
Minorities and other	(1)	-	-	-	-
Adj. profit	1,914	2,577	3,302	4,020	4,833
Exceptional items	-	-	-	-	-
Net profit	1,914	2,577	3,302	4,020	4,833

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	4,839	5,774	6,788
Depreciation	644	808	856	908	960
Tax paid	(644)	(827)	(1,111)	(1,352)	(1,626)
Working capital Δ	856	368	(2,446)	(1,180)	(1,233)
Other operating items					
Operating cashflow	3,576	4,148	2,138	4,150	4,889
Capital expenditure	(8,277)	(1,520)	(1,063)	(1,113)	(1,113)
Free cash flow	(4,701)	2,629	1,075	3,037	3,776
Equity raised	661	95	-	-	-
Investments	(15)	(371)	-	-	-
Debt financing/disposal	4,023	(1,286)	1,356	(246)	(734)
Interest paid	(162)	(395)	(427)	(402)	(329)
Dividends paid	(566)	(608)	(779)	(949)	(1,141)
Net Δ in cash	56	(95)	1,315	1,520	1,656

Source: Company, YES Sec

Exhibit 17: Du-pont analysis

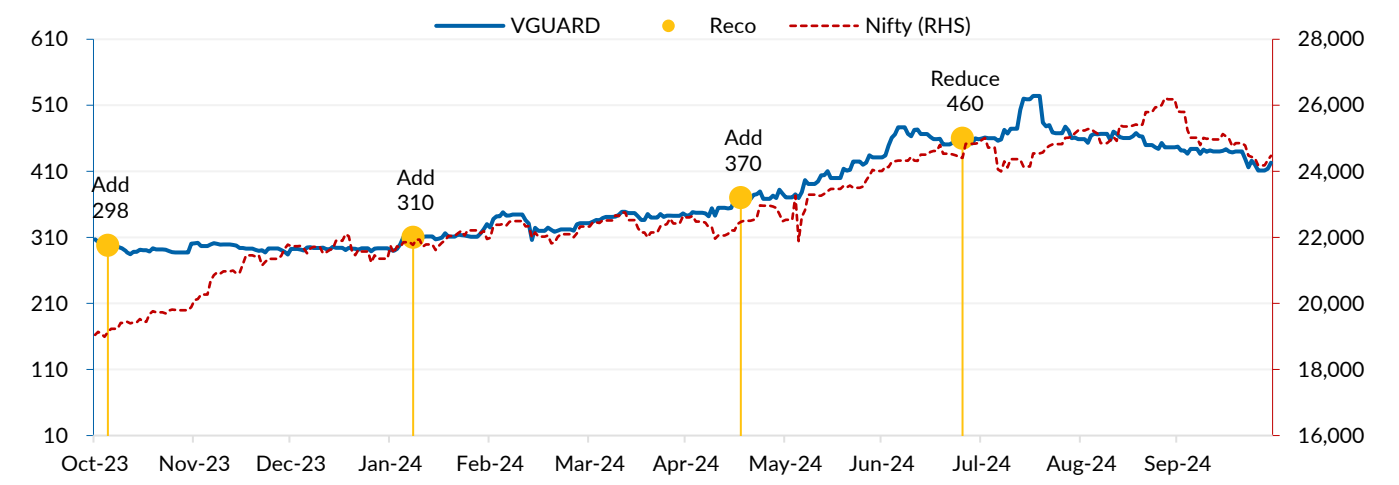
Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.75	0.76	0.75	0.75	0.75
Interest burden (x)	0.94	0.90	0.91	0.93	0.95
EBIT margin (x)	0.07	0.08	0.09	0.09	0.10
Asset turnover (x)	1.65	1.60	1.61	1.56	1.57
Financial leverage (x)	1.66	1.77	1.81	1.83	1.77
RoE (%)	12.7	15.1	17.0	18.1	18.9

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)					
Revenue growth	17.9	17.7	16.2	12.5	11.6
Op profit growth	(5.9)	33.3	28.3	16.0	16.1
EBIT growth	(9.9)	39.7	27.4	19.3	17.6
Net profit growth	(12.7)	34.6	28.1	21.7	20.2
Profitability ratios (%)					
OPM	7.8	8.8	9.7	10.0	10.4
EBIT margin	6.6	7.8	8.6	9.1	9.6
Net profit margin	4.6	5.3	5.8	6.3	6.8
RoCE	15.8	18.4	21.0	21.9	23.2
RoNW	12.7	15.1	17.0	18.1	18.9

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
RoA	7.6	8.5	9.4	9.9	10.7
Per share ratios					
EPS	4.4	5.9	7.6	9.3	11.1
Dividend per share	1.3	1.4	1.8	2.2	2.6
Cash EPS	5.9	7.8	9.6	11.3	13.3
Book value per share	37.0	41.8	47.6	54.6	63.1
Valuation ratios					
P/E	96.1	71.3	55.7	45.7	38.0
P/CEPS	71.9	54.3	44.2	37.3	31.7
P/B	11.4	10.1	8.9	7.7	6.7
EV/EBIDTA	58.6	43.6	34.0	29.0	24.7
Payout (%)					
Dividend payout	29.5	23.6	23.6	23.6	23.6
Tax payout	25.2	24.3	25.2	25.2	25.2
Liquidity ratios					
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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