

September 05, 2023

Company Update | Sector: Consumer Durables

V-Guard Industries Ltd

Well-defined growth strategy in place

Highlights of our interaction with VGRD CFO Sudarshan Kasturi: The company has a strategy in place to achieve 15% CAGR over the medium term which includes i) more in-house manufacturing to launch new products at a faster pace; ii) focus on technology with higher R&D investments to boost cost-effective product innovation iii) aggressive digital thrust to achieve supply chain efficiencies; iv) integrating IT systems of Sunflame appliances for better planning and management.

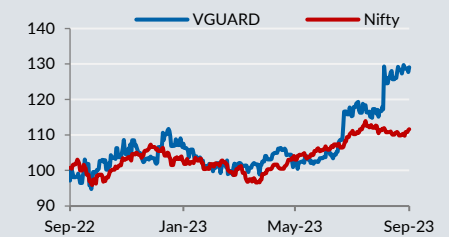
- **Well defined Growth Strategy:** The company has prioritized consumer durables as its growth drivers. Manufacturing capacities and increased R&D effort will boost product innovation, thereby leading market share gains.
- **SEPL acquisition to trigger geographical and product diversification:** SEPL derives 80% of revenue from non-South region, while VGRD entire revenue from kitchen appliances comes from South. SEPL's acquisition is ripe with growth opportunities in the kitchen space.
- **Festive season sales begin on positive note:** VGRD has had a great festive season with >20% growth in ONAM sales. An upbeat real estate and home renovation market augurs well for revenues from consumer durables. Channel partners of electrical products, especially in the south, have high hopes from festive season. Current ONAM sales were reportedly the best in past three years (Earlier seasons were impacted by floods or price hikes from raw-material volatility.)
- **Stable raw material prices and in-house manufacture augur well:** The company has own manufacturing facilities for key product categories like consumer durables. It is also setting up new manufacturing facilities for Kitchen and batteries to promote efficiency, as also increase margins, which has been below par off late.
- **Our take:** The management vision and strategies to achieve 15% revenue CAGR over medium term reflect company's conviction in good measure. The SEPL acquisition and integration will pave for geographical as well as product diversification. We reckon FY25 will reflect the full impact of the management vision and strategy, while FY24 will largely be an year of consolidation. We expect company to deliver FY23-25 Revenue/EBITDA/PAT CAGR of 16%/33%/40% on consolidated basis. We maintain our target multiple to 40x and upgrade the stock to ADD recommendation with revised TP of Rs345.

Reco	: ADD
CMP	: Rs 310
Target Price	: Rs 345
Potential Return	: +11.4%

Stock data (as on Sep 05, 2023)

Nifty	19,575
52 Week h/l (Rs)	335 / 229
Market cap (Rs/USD mn)	135066 / 1627
Outstanding Shares (mn)	434
6m Avg t/o (Rs mn):	84
Div yield (%):	0.5
Bloomberg code:	VGRD IN
NSE code:	VGUARD

Stock performance



	1M	3M	1Y
Absolute return	10.7%	24.4%	33.0%

Shareholding pattern (As of June'23 end)

Promoter	55.6%
FII+DII	32.2%
Others	12.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	345	319

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	6.7	8.6
EPS (Old)	6.4	8.0
% change	4.7%	7.5%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	41,260	49,898	55,813
YoY Growth	17.9%	20.9%	11.9%
EBIDTA	3,199	4,641	5,693
YoY Growth	-6.0	45.1	22.7
PAT	1,914	2,884	3,731
YoY Growth	-12.7%	50.7%	29.4%
ROE	12.7	16.9	19.2
EPS	4.4	6.7	8.6
P/E	70.4	46.7	36.1
BV	37.2	41.7	48.1
EV/EBITDA	43.3	29.4	23.6

AAKASH FADIA

Analyst

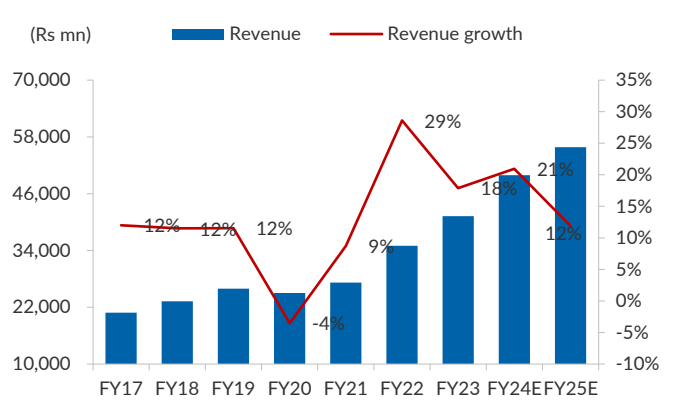
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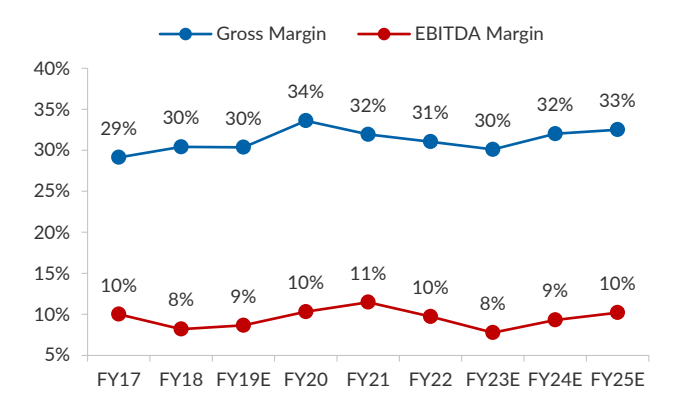
CHARTS

Exhibit 1: Revenue to grow 26% CAGR during FY23-FY25E



Source: Company, YES Sec

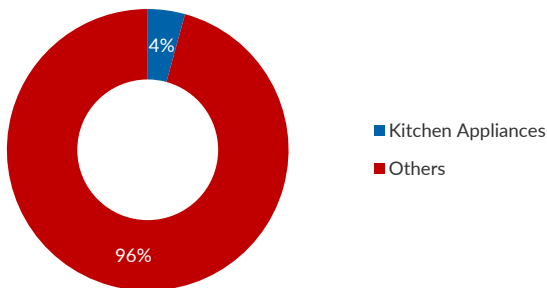
Exhibit 2: Margins set to improve going forward on increased in-house manufacturing



Source: Company, YES Sec

Exhibit 3: VGRD's contribution from kitchen appliances has been miniscule

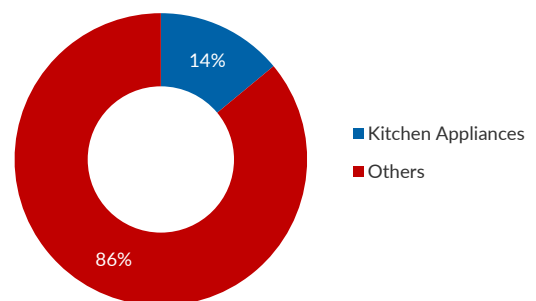
VGRD FY22 revenue from Kitchen Appliances



Source: Company, YES Sec

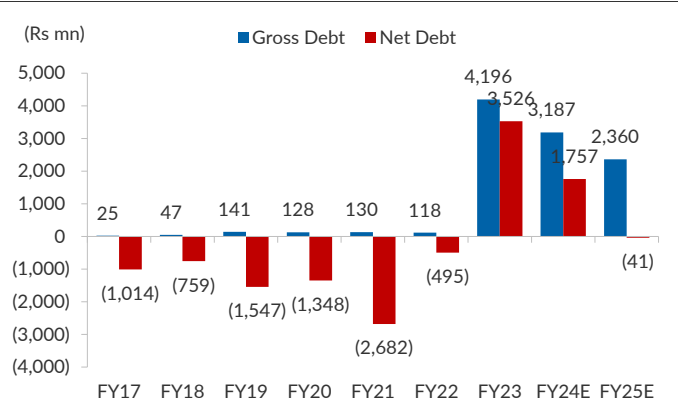
Exhibit 4: Combined entity kitchen appliances contribution to meaningfully increase

VGRD + SEPL Combined revenue from Kitchen Appliances



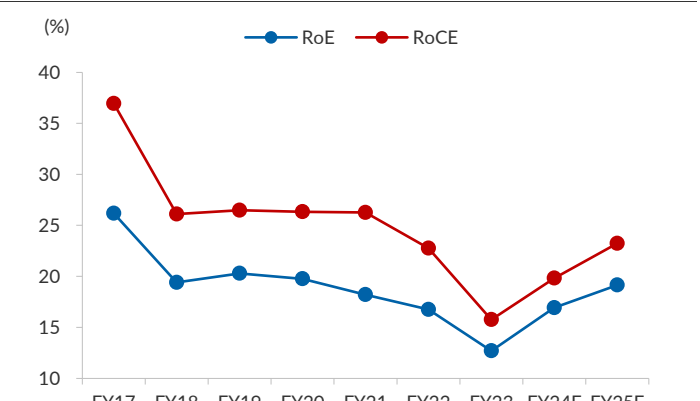
Source: Company, YES Sec

Exhibit 5: VGRD to become net cash positive in FY25



Source: Company, YES Sec

Exhibit 6: Return ratios to improve after dipping in FY23



Source: Company, YES Sec

FINANCIALS

Exhibit 7: 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	17,586	20,349
Net worth	12,160	14,124	16,076	18,018	20,781
Debt	130	118	4,196	3,187	2,360
Deferred tax liab (net)	0	0	1,033	1,033	1,033
Other non current liabilities	663	678	1,065	1,288	1,441
Total liabilities	12,953	14,920	22,369	23,526	25,615
Fixed Asset	3,890	4,019	11,652	12,130	12,239
Investments	337	337	353	353	353
Other Non-current Assets	513	1,409	2,013	2,186	2,304
Net Working Capital	5,401	8,543	7,683	7,428	8,319
Inventories	6,315	8,596	7,674	8,886	9,939
Sundry debtors	3,881	4,841	5,687	7,833	8,762
Loans and Advances	995	1,247	1,021	1,235	1,382
Sundry creditors	4,747	4,535	4,885	8,294	9,277
Other current liabilities	503	1,104	1,166	1,411	1,578
Cash & equivalents	2,812	613	669	1,429	2,400
Total Assets	12,953	14,920	22,370	23,526	25,615

Source: Company, YES Sec

Exhibit 8: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	27,212	35,002	41,260	49,898	55,813
Operating profit	3,121	3,402	3,199	4,641	5,693
Depreciation	386	491	644	712	757
Interest expense	61	79	162	255	189
Other income	207	108	164	180	215
Profit before tax	2,881	2,940	2,557	3,854	4,962
Taxes	862	740	644	970	1,249
Minorities and other	11	7	(1)	(1)	(1)
Adj. profit	2,008	2,192	1,914	2,884	3,714
Exceptional items	-	-	-	-	-
Net profit	2,008	2,192	1,914	2,884	3,714

Source: Company, YES Sec

Exhibit 9: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	2,942	3,018	2,719	4,109	5,150
Depreciation	386	491	644	712	757
Tax paid	(862)	(740)	(644)	(970)	(1,249)
Working capital Δ	126	(3,141)	859	255	(891)
Other operating items					
Operating cashflow	2,593	(371)	3,579	4,105	3,768
Capital expenditure	(766)	(621)	(8,277)	(1,190)	(866)
Free cash flow	1,827	(992)	(4,698)	2,915	2,902
Equity raised	666	325	582	(205)	-
Investments	(334)	-	(15)	-	-
Debt financing/disposal	13	(5)	4,023	(1,009)	(827)
Interest paid	(61)	(79)	(162)	(255)	(189)
Dividends paid	(516)	(561)	(490)	(738)	(950)
Net Δ in cash	1,696	(2,199)	56	760	971

Source: Company, YES Sec

Exhibit 10: Du-pont analysis

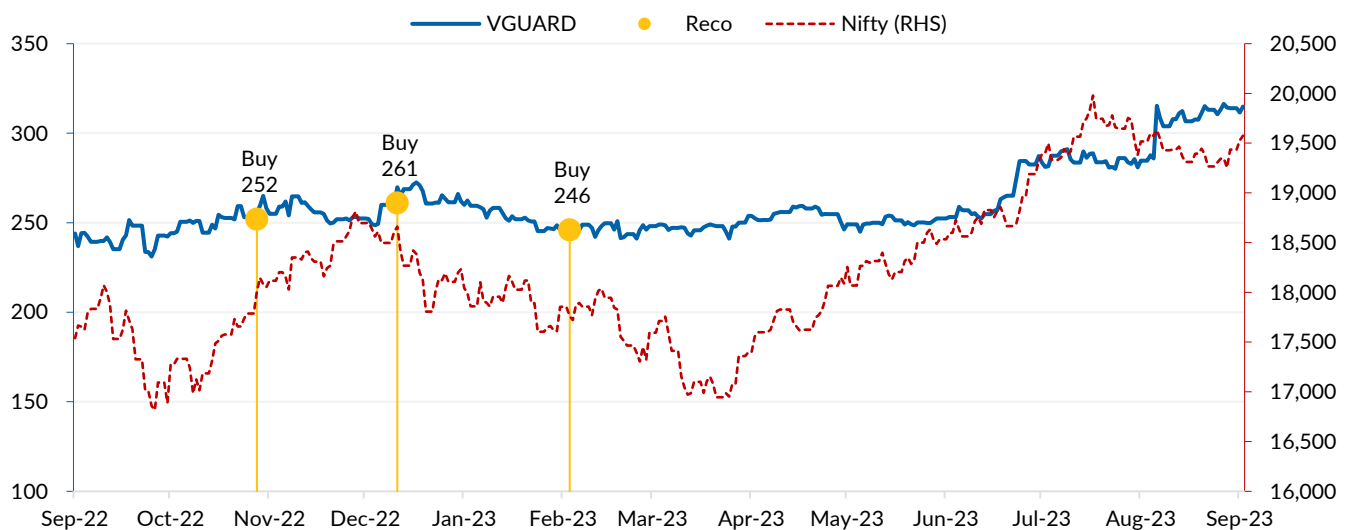
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.70	0.75	0.75	0.75	0.75
Interest burden (x)	0.98	0.97	0.94	0.94	0.96
EBIT margin (x)	0.11	0.09	0.07	0.08	0.09
Asset turnover (x)	1.63	1.76	1.65	1.58	1.56
Financial leverage (x)	1.51	1.52	1.66	1.85	1.84
RoE (%)	18.2	16.7	12.7	16.9	19.1

Exhibit 11: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	8.7	28.6	17.9	20.9	11.9
Op profit growth	21.0	9.0	(6.0)	45.1	22.7
EBIT growth	15.9	2.6	(9.9)	51.1	25.4
Net profit growth	7.3	9.2	(12.7)	50.7	28.7
Profitability ratios (%)					
OPM	11.5	9.7	7.8	9.3	10.2
EBIT margin	10.8	8.6	6.6	8.2	9.2
Net profit margin	7.4	6.3	4.6	5.8	6.7
RoCE	26.3	22.8	15.8	19.8	23.2
RoNW	18.2	16.7	12.7	16.9	19.1

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoA	12.1	11.0	7.6	9.1	10.4
Per share ratios					
EPS	4.7	5.1	4.4	6.7	8.6
Dividend per share	1.2	1.3	1.1	1.7	2.2
Cash EPS	5.6	6.2	5.9	8.3	10.3
Book value per share	28.3	32.7	37.2	41.7	48.1
Valuation ratios					
P/E	55.9	51.5	40.3	34.1	29.1
P/CEPS	46.9	42.0	33.6	28.5	24.6
P/B	9.3	8.0	7.0	6.1	5.2
EV/EBIDTA	35.1	33.2	25.9	21.5	18.6
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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