

Healthy performance, strong future outlook...

V-Guard's Q4FY21 performance was much ahead of our estimates on all fronts. A favourable base, dealer additions, launches of new products and market share gains from unorganised/regional players drive strong sales growth in Q4FY21. According to the management, V-Guard will continue to focus on expanding distribution network in non-south regions (~40% of revenue), improving mix towards premium product launches (for better gross margins). The company has plans to leverage technology benefit from its recent investment in battery startup 'Gegadyne Energy' for launching new products in the coming future. In the near term, lockdown related disruption are likely to hit demand and margin of the company. Hence, we revise our revenue, PAT guidance down by ~3%, 9%, respectively, for FY22E. However, we believe a healthy b/s (net cash of ₹ 271 crore) and a strong brand would help V-Guard to sail through near term challenges easily.

Favourable base, dealer additions drive Q4 topline

In Q4FY21, revenues at ₹ 855 crore, up 58% YoY, were led by similar growth in all three product categories (electronics, electricals, consumer durables) on a favourable base, dealer additions and launches of new products. The price hike was in the range of 5-10% across product categories. On the margin front, EBITDA margin expansion by ~448 bps YoY at 12.9% was due to higher operating leverage in Q4FY21. Finally, PAT growth of 112% YoY to ~₹ 68 crore was a function of strong sales growth and margin expansion. Considering the company's long term plan of expansion in new geographies and increasing mix of premium products will help drive revenue at CAGR of 18% in FY21-23E.

Focus to improve product mix through in house manufacturing

The company plans to improve product mix by launching premium products through in-house manufacturing. Revenue contribution from in-house manufacturing has increased from 40% to 50% in the last five years, which help improve gross margins of the company. Going forward, it plans to increase in-house manufacturing of premium products to further improve the gross margin. The company's investment in battery startup Gegadyne Energy is for its long term strategic plan to strengthen its existing product portfolio (initially UPS and stabilisers segment).

Valuation & Outlook

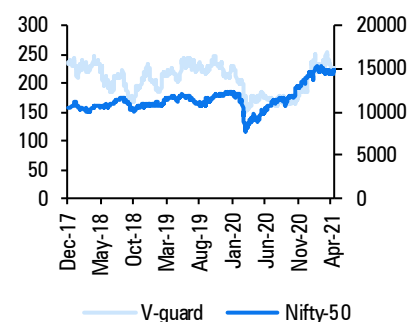
We believe improving housing sales, government push on infrastructure development and market share gain will benefit organised players like V-Guard. This, coupled with the company's focus on premium product category will help drive revenue, PAT at CAGR of ~18%, ~24%, respectively, for FY21-23E. We reiterate our **BUY** rating and revise our target price to ₹ 310 (earlier ₹ 265), valuing the company at 42x FY23E earnings.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	11,906.4
Total Debt (FY21) (₹ Crore)	13.0
Cash and Inv (FY21) (₹ Crore)	281.2
EV (₹ Crore)	11,638.3
52 week H/L	285 / 159
Equity capital (₹ Crore)	42.5
Face value (₹)	1.0

Price Performance



Key risk to our call

- Lower-than-expected topline growth on account of extended lockdown
- Delay in price hikes and higher fixed cost may keep EBITDA margin under check compared to our expectation

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	2594.0	2502.9	2721.2	3184.8	3797.8	18.1
EBITDA	224.3	258.0	312.1	327.1	425.4	16.7
EBITDA Margin (%)	8.6	10.3	11.5	10.3	11.2	
PAT	168.1	188.3	201.9	236.3	312.1	24.3
EPS (₹)	3.9	4.4	4.7	5.5	7.3	
P/E(x)	70.3	62.9	58.9	50.3	38.1	
Price /Book Value (x)	13.1	11.9	9.8	9.7	8.6	
EV/EBITDA (x)	51.8	45.2	36.9	35.0	27.0	
RoE (%)	18.7	18.9	16.7	19.2	22.5	
RoCE (%)	24.1	25.1	23.9	25.1	29.0	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comment
Revenue	855.2	733.8	541.1	58.0	835.0	2.4	Favourable base, pent up demand of summer led products drive overall sales in Q4FY21
Other Income	3.9	6.8	5.0	-21.7	5.6	-29.2	
Raw Material Exp	583.5	496.8	358.4	62.8	558.7	4.5	Lower gross margin (down by ~200 bps YoY) attributable to sharp rise in raw material prices
Employee Exp	57.5	64.7	42.5	35.3	63.3	(9.2)	
Advertisement Exp	15.0	11.0	12.3	22.1	3.3	349.1	Higher advertisement expenditure to promote new launches
Other Exp	88.8	85.4	82.4	7.8	94.2	-5.7	
EBITDA	110.4	76.0	45.6	142.0	115.5	-4.5	
EBITDA Margin (%)	12.9	10.4	8.4	448 bps	13.8	-93 bps	Strong operating leverage amid improved utilisation help drive margin
Depreciation	12.0	10.0	7.4	61.5	9.8	22.9	
Interest	2.6	1.4	0.9	170.9	1.2	110.3	
PBT	99.8	71.5	42.3	136.1	110.1	-9.4	
Total Tax	31.4	14.5	10.0	212.9	31.9	-1.5	
PAT	68.4	57.0	32.2	112.1	78.3	-12.6	Strong sales growth and margin expansion drives bottomline
Key Metrics							
Electronics	242.8	224.6	150.3	61.5	207.4	17.0	Favourable base and pent up demand (strong AC sales help drive demand of Stabilisers) help drive sales of electronics goods
Electricals	388.7	334.9	246.7	57.6	363.5	6.9	Electrical segment recovery was led by wire and pump segment
Consumer Durable	224.0	174.3	144.1	55.4	264.1	-15.2	Strong growth in fan and kitchen appliances help drive segment growth
Gross Margin	31.8	32.3	33.8	-200 bps	33.1	-133 bps	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	%chg	Old	New	%chg	
Revenue	3,265.9	3184.8	(2.5)	3,720.1	3797.8	2.1	We tweak our revenue estimate downward for FY22E considering the impact of lockdown in Q1FY22. However, new product launches, dealer additions and market share gains from unorganised segment would continue to help drive future revenue growth
EBITDA	366.0	327.1	(10.6)	426.0	425.4	(0.2)	
EBITDA Mar %	11.2	10.3	-93bps	11.5	11.2	-30bps	We cut our margin estimates for FY22 considering lower operating leverage in Q1FY22
PAT	260.3	236.3	(9.2)	301.4	312.1	3.6	
EPS (₹)	6.1	5.5	(9.2)	7.0	7.3	3.6	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Electronics Growth	-0.7	-8.1	34.0	12.7	34.0	12.7	Recovery in demand for cooling products will drive demand of stabilisers while UPS segment sales will be driven by new launches
Electricals Growth	-6.7	-3.7	23.4	10.0	23.4	10.0	We believe recovery in construction activities would drive demand for wire, pump and new launches in switchgear segment
Cons. Durable Growth	-0.5	-3.2	23.2	13.7	23.2	13.7	Favourable base and new product launches (water purifier, breakfast appliances, and kitchen hobs and chimneys) will drive segment revenue

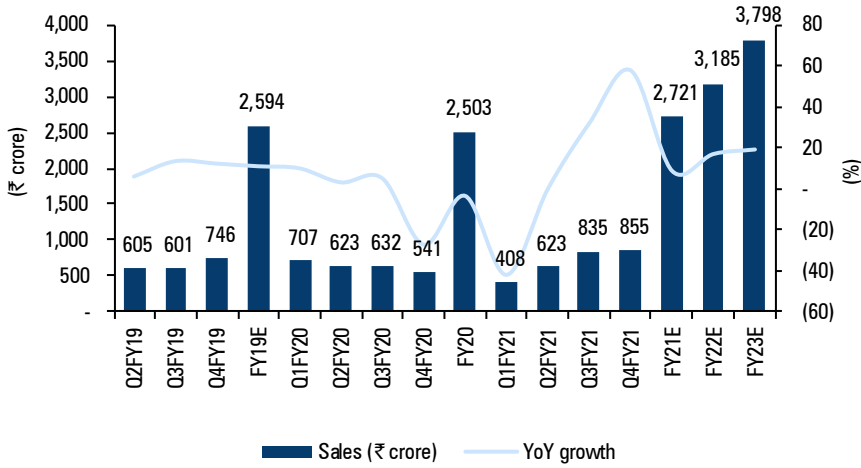
Source: Company, ICICI Direct Research

Conference call highlights

- **Demand outlook:** The current inventory holding is higher by 15 days in anticipation of pent up demand post opening up of markets. The company has given a long term revenue growth guidance of 15% backed by new launches, expansion in non-south markets and market share gains. We expect strong growth in the kitchen hobs & chimneys and water purifier segment, going ahead
- **Current Market share:** V-Guard's organised market share in different categories are as follows:
 - A) **Established product category:** Stabilisers 42-45%, pumps 8-10%, water heater 14-16%, solar water heater 14-16%, housing wire 6-8%, DUPS & battery 4-6%,
 - B) **New product category:** Fans 3-5%, Switchgear 3-5%, New entrant into air coolers & kitchen appliances categories
- **Geographical revenue mix:** South ~60%, West ~20%, North ~10%, and East ~10%
- **Revenue mix:** The company started selling through e-commerce channel two years back, which is gaining traction and the margin profile is better on e-commerce than selling through normal trade. Excluding wires, switchgear product categories, e-commerce and modern trade contributes ~15% of its topline. The e-commerce sales increased by 40% YoY in FY21.=
- **Distribution:** Retail touch points at 40,000 points of which 17000 are in the south and the rest are in non-south
- **Advertisement & promotion (A&P) expenses:** A&P expenses in FY21 was lower at 1% (vs. 2% in FY20). The future A&P expenses will be in the range of 2-2.5% of revenue in normalised years.
- **EBITDA Margin:** Near term EBITDA margin guidance is at 10.5%. For better gross margin, the company has increased focus on improving mix towards in-house manufacturing (the outsourcing has come down to 50% from 60% in last few years). Guided for more premium product launches
- **Capex:** Planned capex for FY22 is ₹ 50-60 crore

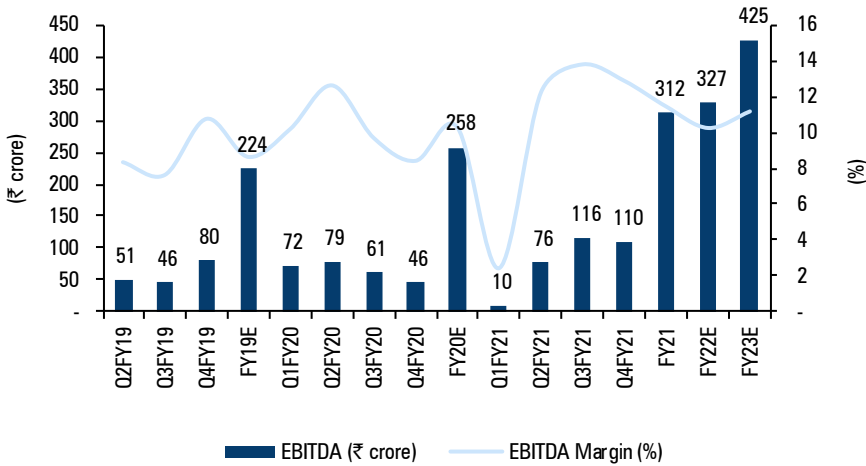
Financial story in charts

Exhibit 4: Dealer additions and new product launches to drive revenue



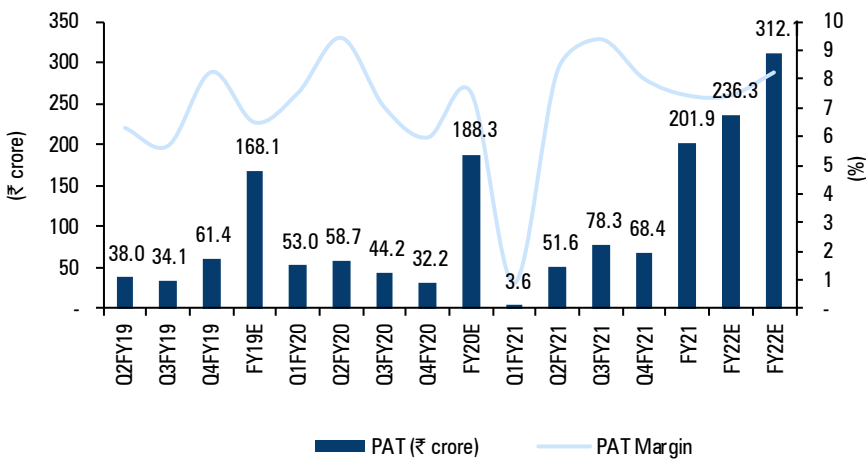
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: PAT growth led by margin expansion



Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Net Sales	2502.9	2721.2	3184.8	3797.8	
Growth (%)	-3.5	8.7	17.0	19.2	
Expenses					
Raw Material Expenses	1661.8	1852.5	2181.6	2582.5	
stock					
Employee Expenses	208.8	226.6	254.8	292.4	
Administrative Expenses	317.6	305.5	366.3	406.4	
Total Operating Expenditure	2244.9	2409.1	2857.8	3372.4	
EBITDA	258.0	312.1	327.1	425.4	
Growth (%)	15.0	21.0	4.8	30.1	
Other Income					
Interest	25.1	20.7	31.5	38.0	
PBDT	4.2	6.1	4.3	2.5	
PBDT	279.0	326.7	354.3	460.8	
Depreciation	29.4	38.6	43.0	50.1	
PBT before Exceptional Items	249.6	288.1	311.3	410.7	
PBT	249.6	288.1	311.3	410.7	
Total Tax	61.3	86.2	75.0	98.6	
PAT	188.3	201.9	236.3	312.1	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	188.3	201.9	236.3	312.1	
Depreciation	29.4	38.6	43.0	50.1	
Cash Flow before working capital ch	221.8	246.6	283.6	364.8	
Net Increase in Current Assets	6.7	-205.3	-53.1	-246.9	
Net Increase in Current Liabilities	-74.9	184.7	112.0	69.2	
Net cash flow from operating act	153.7	226.0	342.5	187.0	
(Purchase)/Sale of Fixed Assets	-142.2	-76.6	-60.0	-70.0	
Net Cash flow from Investing act	-30.1	-64.3	-56.2	-70.0	
Inc / (Dec) in Equity Capital	0.1	0.0	0.0	0.0	
Inc / (Dec) in Loan Funds	0.0	0.0	0.0	0.0	
Total Outflow on account of dividend	-46.2	-51.4	-103.1	-154.6	
Net Cash flow from Financing act	-97.5	7.9	-211.5	-147.1	
Net Cash flow	26.1	169.6	74.8	-30.1	
Cash and Cash Equivalent at the beg.	85.5	111.6	281.2	356.0	
Cash	111.6	281.2	356.0	325.9	

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Equity Capital	42.8	42.8	42.8	42.8	
Reserve and Surplus	952.6	1168.3	1187.3	1344.8	
Total Shareholders funds	995.5	1211.1	1230.1	1387.7	
Total Debt	12.8	13.0	23.0	33.0	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Total Liability	1080.3	1315.6	1344.6	1512.1	
Assets					
Total Gross Block	461.7	585.6	654.2	724.2	
Less Total Accumulated Depr	180.9	219.6	262.6	312.7	
Net Block	280.8	366.0	391.6	411.5	
Total Fixed Assets	347.7	385.6	402.6	422.5	
Inventory	479.0	631.5	628.2	749.1	
Debtors	324.3	388.1	410.1	509.8	
Loans and Advances	8.6	3.7	4.1	4.9	
Cash	111.6	281.2	356.0	325.9	
Total Current Assets	1028.2	1403.1	1530.9	1747.8	
Creditors	305.1	474.7	523.5	572.3	
Provisions	47.2	55.0	80.2	87.6	
Total Current Liabilities	374.6	559.2	671.2	740.4	
Net Current Assets	653.6	843.9	859.7	1007.4	
Total Assets	1080.3	1315.6	1344.6	1512.1	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Per Share Data (₹)					
EPS	4.4	4.7	5.5	7.3	
Cash EPS	5.1	5.6	6.5	8.5	
BV	23.3	28.3	28.7	32.4	
DPS	1.1	1.2	2.4	3.6	
Operating Ratios (%)					
EBITDA Margin	10.3	11.5	10.3	11.2	
PAT Margin	7.5	7.4	7.4	8.2	
Return Ratios (%)					
RoE	18.9	16.7	19.2	22.5	
RoCE	25.1	23.9	25.1	29.0	
RoIC	27.8	28.4	30.6	33.3	
Valuation Ratios (x)					
EV / EBITDA	45.2	36.9	35.0	27.0	
P/E	62.9	58.9	50.3	38.1	
EV / Net Sales	4.7	4.2	3.6	3.0	
Market Cap / Sales	4.7	4.3	3.7	3.1	
Price to Book Value	11.9	9.8	9.7	8.6	
Turnover Ratios (x)					
Asset turnover	2.5	2.2	2.5	2.7	
Debtors Days	47.3	52.1	47.0	49.0	
Creditors Days	44.5	63.7	60.0	55.0	
Solvency Ratios (x)					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.4	2.0	1.8	1.9	
Quick Ratio	1.2	0.9	0.8	0.9	

Source: Company, ICICI Direct Research

Exhibit 10: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,774	2,970	Buy	2,66,027	33.4	36.7	45.4	83.0	75.5	61.1	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnik (ASTPOL)	1,787	1,915	Hold	26,923	20.3	21.8	29.3	87.9	82.1	61.1	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	2,730	3,130	Buy	8,585	24.7	45.7	88.2	110.5	59.7	30.9	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,080	1,280	Buy	12,279	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	752	810	Hold	73,034	7.6	9.7	12.4	98.9	77.3	60.8	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	398	480	Buy	24,955	9.8	9.2	11.9	40.5	43.5	33.5	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	3,996	4,635	Buy	23,396	27.3	54.8	95.8	146.5	72.9	41.7	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8
EPL (ESSPRO)	232	250	Hold	7,320	7.8	8.9	10.8	29.6	26.0	21.5	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,031	1,255	Buy	64,324	16.7	16.7	22.0	61.9	61.6	46.8	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	556	655	Buy	29,964	9.9	12.1	14.4	56.4	45.9	38.6	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	464	600	Buy	1,286	16.5	20.8	28.0	28.2	22.3	16.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,888	2,035	Hold	95,873	22.2	26.3	31.8	85.1	71.8	59.4	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,599	1,385	Buy	23,806	57.9	67.2	79.7	27.6	23.8	20.1	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,122	2,390	Hold	26,955	77.0	64.9	72.4	27.6	32.7	29.3	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,059	1,345	Hold	7,408	15.3	28.5	39.5	69.2	37.2	26.8	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	79	75	Buy	1,787	4.4	9.6	-	17.9	8.2		5.7	3.8		8.4	13.7		5.5	11.2	
V-Guard Ind (VGUARD)	278	320	Buy	11,906	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,027	1,150	Buy	33,966	16.0	21.2	28.9	64.2	48.6	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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