Sharekhan by BNP PARIBAS

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V-Guard Industries Limited

Healthy Q4, growth longevity remains

Capital Goods	Sharekhan code: VGUARD	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 263**	
Price Target: **Rs. 311**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

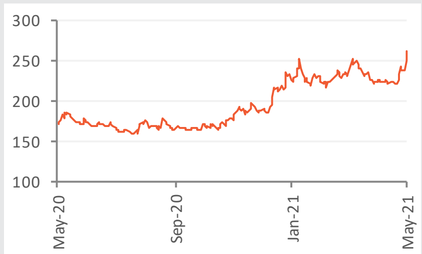
Company details

Market cap:	Rs. 11,310 cr
52-week high/low:	Rs. 265/160
NSE volume: (No of shares)	4.2 lakh
BSE code:	532953
NSE code:	VGUARD
Free float: (No of shares)	18.4 cr

Shareholding (%)

Promoters	57.2
FII	14.9
DII	13.9
Others	14.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	17	16	42	54
Relative to Sensex	12	8	26	-8

Sharekhan Research, Bloomberg

Summary

- We retain Buy on V-Guard Industries Limited (V-Guard) with an unchanged PT of Rs. 311, considering its improving business operations
- Healthy performance in Q4FY21 where revenues improved 58% y-o-y lead by broad-based growth across product categories along with OPM expansion on cost saving measures leading to higher net profit.
- Management expects to get back on to the growth path with a rebound in business environment and highlighted that demand expected to resume from Q2FY2022E and would like to grow at 15% per annum with a sustainable margin of 10-10.5%.
- The company's strong balance sheet, cash flow and reputed brand along with strong business fundamentals provide comfort in the present environment.

V-Guard Industries Limited's (V-Guard) witnessed healthy performance in Q4FY21 where revenues improved on broad-based growth across product categories along with OPM expansion on cost saving measures leading to higher net profit. The net sales for Q4FY21 surged 58.2% y-o-y (in line with estimates) to Rs 849 crore led broad-based growth across product categories and geographical regions. Segment wise both electronics and electrical businesses revenues improved 61.5% and 58% y-o-y to Rs243 crore and Rs 383 crore, while the consumer durable business improved 55.2% y-o-y to Rs 224 crore. The company gained market share in mid-premium fans segment but lost some market share in water heater. South revenues grew 49.6 y-o-y while non-south revenues improved 70.9% y-o-y. EBITDA margins improved 453 bps on back of lower A&P spends and cost saving measures to 12.9%. Higher operating leverage offset by higher depreciation led to inline PBT however higher tax rate (31.9% vs 23.3% in Q4FY20) due to the production stoppages at the Sikkim facility where the company enjoys tax advantages led to net profit of Rs 68.3 crore (lower than estimates) vs Rs 33 crore. Going ahead, the management indicated that Q1 demand is expected to be impacted due to the second wave of COVID. However, the management expects demand to come back from Q2FY2021 onwards. The company would like to grow at 15% per annum with a sustainable margin of 10-10.5%. The company is holding 15 days' higher inventory to cater to pent up demand once normalcy returns. The trade inventory was higher last year but now is lower and expect inventory to get depleted fast as the market opens up. On the input cost and pricing front, the company had taken price hike to counter higher commodity prices. It would be taking further price hikes in H1FY2021. The company remains focused on 1) evolving category mix and product mix, 2) go to market with focus on e-commerce and modern trade, 3) distribution enhancement in smaller town and rural along with increase in non-south region. It expects to add 3000 to 4000 retailers every year in non-south region. It has 40,000 retail points with around 18,000 in south and balance in non-south with continuous additions. On the capex front, the company would incur Rs. 60-90 crores a year going forward. We have fine-tuned our earnings estimates for FY22E and FY23E and the stock is currently trading at 49x and 43x FY22 and FY23E EPS. We believe the company's strong balance sheet, cash flows and brand reputation along with robust business fundamentals provide comfort in the present environment. Hence, we continue to maintain Buy on the stock with an unchanged price target (PT) of Rs. 311.

Key positives

- Margins improved 453 bps on the back of lower A&P spend and cost saving measures.
- Revenues grew 58% with broad-based growth across product categories.

Key negatives

- Gross margins lower due to higher commodity prices.

Our Call

Valuation – We maintain Buy with an unchanged PT of Rs. 311: The company remains focused on 1) evolving category mix and product mix, 2) go to market with focus on e-commerce and modern trade, 3) distribution enhancement in smaller town and rural areas along with an increase in non-south region and focus on in-house manufacturing. Further, the management remains optimistic and expects demand to resume from the subsequent quarter. The company would like to grow at 15% per annum with a sustainable margin of 10-10.5%. We have fine-tuned our earnings estimates for FY22E and FY23E and the stock is currently trading at 49x and 43x FY22 and FY23E EPS. We believe the company's strong balance sheet, cash flows and reputed brand along with robust business fundamentals provide comfort in the present environment. Hence, we continue to maintain Buy on the stock with an unchanged price target (PT) of Rs. 311.

Key risk

Sustained weak demand environment can affect earnings over the near term.

Valuation (Standalone) Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenue	2,482	2,699	3,023	3,401
OPM (%)	10.2	11.4	10.7	10.8
Adjusted PAT	185	199	230	266
% YoY growth	11.9	7.5	15.7	15.4
Adjusted EPS (Rs.)	4.3	4.6	5.4	6.2
P/E (x)	61.1	56.8	49.1	42.6
P/B (x)	11.3	9.7	8.4	7.3
EV/EBITDA (x)	40.0	33.9	31.4	27.5
RoNW (%)	19.6	18.5	18.4	18.3
RoCE (%)	26.0	26.7	25.1	25.0

Source: Company; Sharekhan estimates

Healthy performance: V-Guard Industries Limited's (V-Guard) witnessed healthy performance in Q4FY21 where revenues improved on broad-based growth across product categories along with OPM expansion on cost saving measures leading to higher net profit. The net sales for Q4FY21 surged 58.2% y-o-y (inline with estimates) to Rs 849 crore led broad-based growth across product categories and geographical regions. Segment wise both Electronics and electrical businesses revenues improved 61.5% and 58% y-o-y to Rs243 crore and Rs 383 crore, while Consumer durable business improved 55.2% y-o-y to Rs 224 crore. The company gained market share in mid-premium Fans segment but lost some market share in water heater. South revenues grew 49.6 y-o-y while non-south revenues improved 70.9% y-o-y. EBITDA margins improved 453 bps on back of lower A&P spends and cost saving measures to 12.9%. Higher operating leverage was offset by higher depreciation that led to inline PBT. However, higher tax rate (31.9% vs 23.3% in Q4FY20) due to production stoppages at the Sikkim facility where the company enjoys tax advantages led to net profit of Rs 68.3 crore (lower than estimates) vs Rs 33 crore.

Optimistic on demand recovery: Going ahead, the management indicated that Q1 demand is expected to be impacted by covid second wave. However, the management expects demand to come back from Q2FY2021 onwards. The company would like to grow at 15% per annum with a sustainable margin of 10-10.5%. The company is holding 15 days higher inventory to cater to pent up demand once normalcy returns. The trade inventory was higher last year but now is lower and expect inventory to get depleted fast as the market opens up. On the input cost and pricing front, the company had taken pricing to counter higher commodity prices. It would be taking further price hikes in H1FY2021. The company focusses on 1) evolving category mix and product mix, 2) go to market with focus on e-commerce and modern trade, 3) distribution enhancement in smaller town and rural along with increase in non-south region. It expects to add 3000 to 4000 retailers every year in non-south region. It has 40,000 retail points with around 18,000 in south and balance in non-south with continuous additions.

V-Guard Q4FY2021 Concall Highlights

- **Outlook:** Q1 demand is expected to be impacted by the second wave. During April 2021, most of the plants were operational while in May 2021, supply chain got affected. The management expects demand to resume from Q2FY2021 onwards. The company would like to grow at 15% per annum with a sustainable margin of 10-10.5%.
- **Inventory:** The company is holding 15 days higher inventory to cater to pent up demand once normalcy returns. The trade inventory was higher last year but now is lower. Inventory may get depleted fast as the market opens up.
- **Input costs and pricing action:** Raw material costs have been a challenge during last year. The company had taken pricing actions to counter it. Currently too, raw materials are higher. It would be taking further price hikes in H1FY2021.
- **Market share:** The company gained market share in mid-premium fans segment but lost some market share in the water heater segment .
- **Higher effective tax:** The company reported lower net profit growth on account of higher effective tax rate as it was not able to get tax advantage from its Sikkim plant which was shut for around six months. The net cash stood at Rs. 271 crore while core RoCE touched 40% in FY2021.
- **A&P spends:** During FY21, A&P spends were 1% of sales. The long-term trend for A&P will be 2.5% of sales.
- **Capex:** The company would incur Rs. 60-90 crores a year going forward.
- **Outsourcing:** The outsourcing has come down to 50% from 60%.

- **Regional growth:** The region wise sales growth was North 11%, West 19% and East 7%.
- **Inhouse/ Outsourcing:** The company currently has 50:50 ratio for in house manufacturing and outsourcing and expect to improve as it shifts more categories in house in next 3-4 years (fans factory recently

Results (Standalone) **Rs cr**

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Revenues	849	537	58.2	827	2.6
Operating Expenses	739	491	50.4	714	3.5
Operating profits	110	45	-	114	(3.2)
Other Income	4	5	(16.0)	5	(19.5)
Interest	2	1	-	1	107.3
Depreciation	12	7	64.5	9	23.8
PBT	100	42	-	108	(7.5)
Tax	32	10	-	31	1.7
Adj PAT	68.3	33	-	77	(11.3)
Reported PAT	68	33	-	77	(11.3)
Adj EPS	1.6	0.8	-	1.8	(11.3)
			Bps		**bps**
GPM	31.4%	33.3%	(190)	32.6%	(122)
OPM *	12.9%	8.4%	453	13.7%	(78)
NPM	8.0%	6.1%	199	9.3%	(126)
Tax rate	31.9%	23.3%	-	29%	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Uncertain environment likely to normalise by H2FY2022

The COVID-19 outbreak and the shutdown led to the stoppage of work at most factories, forcing brakes on demand. However, the consumer durable/electrical industry has seen good demand in the H2FY2021 and remained so till April, 2021. There may be some disruption in May, 2021 which is expected to improve in consecutive quarter with the easing of lockdowns. The government's Atmanirbhar initiative is expected to benefit with capital subsidies and industrial benefit policies being doled out to give a push to in-house manufacturing. Management expects better supply security and margin improvement with in-house manufacturing for the industry. Healthy cash positions to aid companies in inorganic growth opportunities, as organised players benefit from the tough environment.

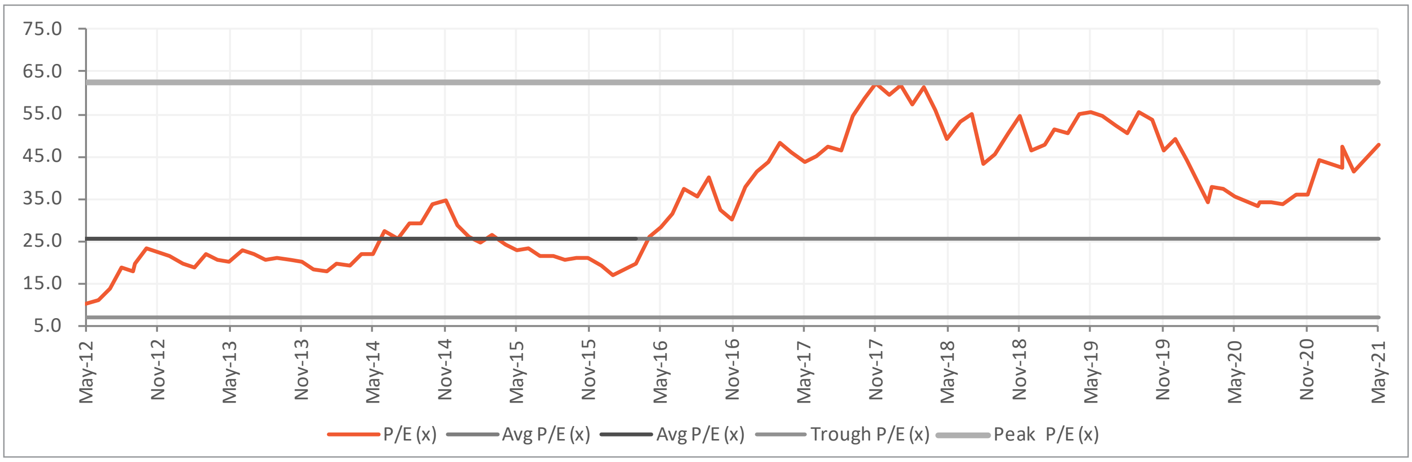
■ Company Outlook – Outlook positive

Management expects to get back on to the growth path with a rebound in business environment and highlighted that demand is expected to come back from Q2FY2022E and would like to grow at 15% per annum with a sustainable margin of 10-10.5%. The company remains focussed on 1) evolving category mix and product mix, 2) go to market with focus on e-commerce and modern trade, 3) distribution enhancement in smaller town and rural along with increase in non-south region. It expects to add 3000 to 4000 retailers every year in non-south region. It has 40,000 retail points with around 18,000 in south and balance in non-south with continuous additions Overall, the management is focusing on maintaining healthy cash position, cost rationalization and expediting digitisation.

■ Valuation – We maintain Buy with an unchanged PT of Rs. 311

The company remains focused on 1) evolving category mix and product mix, 2) go to market with focus on e-commerce and modern trade, 3) distribution enhancement in smaller town and rural along with increase in non-south region and focus on in-house manufacturing. Further, the management remains optimistic and expects demand to come back from subsequent quarter. The company would like to grow at 15% per annum with a sustainable margin of 10-10.5%. We have fine-tuned our earnings estimates for FY22E and FY23E and the stock is currently trading at 49x and 43x FY22 and FY23E EPS. We believe the company's strong balance sheet, cash flows and reputed brand along with robust business fundamentals provide comfort in the present environment. Hence, we continue to maintain Buy on the stock with an unchanged price target (PT) of Rs. 311.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

V-Guard is a major electrical appliances manufacturer in India, and the largest in Kerala. V-Guard is one of India's consumer goods company with diversified product offerings. Headquartered in Kochi, Kerala, the company now has over 500 distributors, 30,000 retailers, and numerous branches across India. The company manufactures voltage stabilisers, electrical cables, electric pumps, electric motors, geysers, solar water heaters, air coolers, and UPSs.

Investment theme

V-Guard is an established brand in the electrical and household goods space, particularly in south India. Over the years, it has successfully ramped up its operations and network to become a multi-product company. The company has a strong presence in the southern region. The company is also aggressively expanding in non-south markets and is particularly focusing on tier-II and III cities, where there is lot of pent-up demand for its products.

Key Risks

- Road express continue to gain market share from air express.
- Any sharp fall in oil price
- Domestic network operating costs have structurally risen and fall in these costs will pose risk to margins

Additional Data

Key management personnel

Mr. KochousephChittilappilly	Chairman
CherianPunnose	Vice-Chairman
Mithun K Chittilappilly	Managing Director
V Ramachandran	Director and Chief Operating Officer
SudarshanKasturi	Senior VP and CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chittilappillymithun K	25.18
2	Chittilappillykochouseph Thomas	17.22
3	Chittilappilly Arun K	8.66
4	Kochouseph Chittilappilly	4.87
5	Chittilappilly Kochouseph	4.33
6	Nalanda India Equity Fund Ltd	4.27
7	Axis Asset Management Co Ltd/India	4.27
8	Dsp Investment Managers Pvt Ltd	3.33
9	Kochouseph Sheela Grace	2.56
10	Nalanda India Fund Ltd	1.95

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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