

High cost drags margin, overshadowing sales growth

About the stock: V-Guard is among India's leading fast moving consumer electrical goods companies with market leadership position in the stabiliser business.

- The company has a wide portfolio of products ranging from switchgears, water heaters, stabilisers, fans and many more
- V-Guard has maintained strong return ratios with RoE and RoCE at ~18% and ~24%, respectively (three year's average)

Q3FY22 Results: Strong revenue growth led by consumer durable segment, but higher operating costs drag EBITDA margins.

- Revenue growth of 16% YoY to ₹ 967 crore in Q3 was led by 28% & 18% growth in consumer durables and electrical segments, respectively
- EBITDA margin declined 487 bps YoY to 9% due to higher raw material costs and other costs (like advertisement expenses)
- PAT declined 31% YoY to ~₹ 54 crore dragged by lower margins, higher depreciation and tax outgo in Q3FY22

What should investors do? V-Guard's share price has grown at a CAGR of 10% in the past five years (from ~₹ 148 in February 2017 to ~₹ 215 levels in January 2022).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value V-Guard at ₹ 255 i.e. 35x P/E on FY24E EPS

Key triggers for future price performance:

- Expansion in non-south regions (revenue contribution increased from 37% in FY18 to 41% in 9MFY22) and government housing thrust (to build 1.3 crore new houses under PMAY) will be key growth driver for V-Guard
- New product launches in the consumer durable category
- Plan to increase in-house manufacturing from current 55% to 60%, which will help the company to improve profitability

Alternate Stock Idea: We also like CGCEL in our coverage universe.

- Market leader in the domestic fan industry with value market share of 27%. The company has increased focus on increasing market share in home appliances categories
- BUY with a target price of ₹ 525



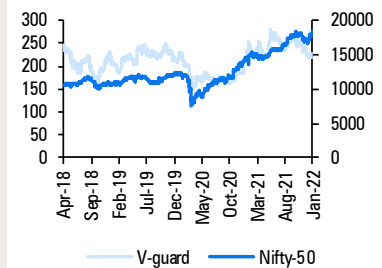
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	9,208.2
Total Debt (FY21) (₹ Crore)	13.0
Cash and Inv (FY21) (₹ Crore)	281.2
EV (₹ Crore)	8,940.0
52 week H/L	285 / 211
Equity capital (₹ Crore)	42.5
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	62.6	57.2	56.1	56.1	56.0
FII	13.0	14.9	14.5	14.3	14.3
DII	13.2	13.9	15.5	15.6	16.0
Others	11.2	14.0	13.9	14.0	13.8

Price Chart



Recent event & key risks

- Key Risk:** (i) Lower than expected demand in key products (ii) Delay in passing on high input prices

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	4 Years CAGR (FY17-21)	FY22E	FY23E	FY24E	3 Years CAGR (FY21-24E)
Net Sales	2594.0	2502.9	2721.2	6.9	3384.6	3911.2	4335.8	16.8
EBITDA	224.3	258.0	312.1	10.6	318.5	414.6	463.9	14.1
EBITDA Margin (%)	8.6	10.3	11.5		9.4	10.6	10.7	
PAT	168.1	188.3	201.9	8.7	198.5	278.4	310.4	15.4
EPS (₹)	3.9	4.4	4.7		4.6	6.5	7.2	
P/E(x)	54.5	48.8	45.6		46.4	33.1	29.7	
Price /Book Value (x)	10.2	9.2	7.6		7.7	7.0	6.3	
EV/EBITDA (x)	40.4	35.2	28.6		28.1	21.7	19.2	
RoE (%)	18.7	18.9	16.7		16.6	21.2	21.1	
RoCE (%)	24.1	25.1	23.9		23.1	27.7	27.5	

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results:

- Strong revenue growth of 16% YoY ~₹ 968 crore led by 28% & 18% growth in consumer durables (CD) and electrical categories, respectively. However, electronic segment revenues declined 4% due to slow offtake of stabilisers amid lower demand of large appliances post festive. The company took a price hike of ~12% in 9MFY22 (~3% in Q3FY22)
- CD sales growth is attributable to ramp up in fans & water heater business and dealer additions. Kitchen appliances grew strongly in Q3 on a favourable base and launches of new products. On the electrical segment, strong growth in pumps and wire & cables (supported by price hikes and residential pump demand) drove segment revenues
- Geography wise, both south and non-south regions revenue increased ~15% and ~18% YoY to ₹ 559 crore and ₹ 401 crore, respectively
- Delay in price hikes in the consumer durable categories (fans) and lower sales contribution of premium water heater segments led the decline in gross margin by 195 bps YoY. This along with higher advertisement expense and low utilisation levels of newly commissioned plants dragged overall EBITDA margin down by 487 bps YoY to 9%

Earnings Conference Call highlights

- **Demand outlook:** The management sees 15% revenue CAGR in the medium to long term supported by ramp up in utilisation of new plants and dealer additions in the new geographies. It expects a normalised summer offtake in FY23E after two consecutive years of pandemic led disruptions
- **EBITDA margin:** The company has guided for recovery in gross margin of fan business to its pre-Covid level of 25% (dropped to 20% due to delay in price hike). This along with improved utilisation of newly built plants (in Roorkee & Sikkim) will help recover consumer durable segment margin at 7% (vs. 3% in Q3FY22). The company maintained EBITDA margin guidance of 10-11% for FY23
- **Capex:** Planned capex of ₹ 70 crore each in FY23 and FY24
- **Tax rate:** 25% for FY22-23

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Havells	75,242	10428	13086	15406	18254	15	13	13	14	1040	1157	1392	1781	25	25	29	36	20	21	24	29	72	65	54	42
Crompton Greaves	25,761	4804	5387	6223	7098	15	14	15	15	617	562	710	829	34	36	41	42	32	28	32	33	42	46	36	31
Bajaj Electrical	13,952	4585	5050	5721	6338	7	7	9	9	189	237	377	438	15	19	25	24	11	15	20	19	74	59	37	32
Polycab	37,190	8792	11069	12489	14011	13	10	12	13	886	820	1031	1266	21	18	22	23	18	14	17	18	42	45	36	29
Symphony	6,919	900	1056	1381	1658	15	16	19	21	107	128	203	274	15	20	28	33	15	18	26	29	65	54	34	25
V guard	9,208	2721	3385	3911	4336	11	9	11	11	202	199	278	310	24	23	28	28	17	17	21	21	46	46	33	30
Voltas	40,350	7556	8459	9666	10963	8	9	10	10	529	656	833	1100	15	19	21	22	11	14	15	17	76	62	48	37

Source: Company, ICICI Direct Research

V-guard has reported a strong revenue growth of 31% YoY 9MFY22 (+24% over pre-Covid level sales). On the margin front, despite an unprecedented rise in input costs V-guard has maintained gross margin on a YoY basis supported by price hikes and improved product mix. However, EBITDA margin declined 140 bps YoY to 9.3% due to restoration of advertisement cost and lower utilisation of new plants. The management has maintained EBITDA margin guidance at 10-11% for FY23-24E supported by improved plant utilisation and better product mix. On the revenue front, we build in revenue CAGR of 17% in FY21-24E supported by geographical expansion and pick up in electronics products demand. We model PAT CAGR of 15% in FY21-24E. We cut our PAT estimates by 5% & 7% for FY23E & FY24E, respectively due to upward revision of non-cash expenditure and lower other income. We maintain our BUY rating on the stock with a revised target price at ₹ 255/share (valuing 35x FY24E, ~35% discount to Havells).

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comment
Revenue	967.4	891.1	835.0	15.9	907.4	6.6	Strong growth in consumer durables and electricals segment drives overall topline growth
Other Income	2.7	5.3	5.6	-51.6	2.6	4.8	
Raw Material Exp	666.0	605.9	558.7	19.2	623.0	6.9	Delay in price hike and change in product mix (strong growth in low margin products) led to 194 bps YoY dip in gross margin
Employee Exp	75.5	66.8	63.3	19.3	71.2	6.1	
Advertisement Exp	17.4	13.4	3.3	421.3	13.6	27.9	Higher advertisement expenditure to promote new launches
Other Exp	121.6	106.9	94.2	29.2	104.7	16.2	Higher fixed cost associated with opening of new plants led to higher other expenses
EBITDA	86.8	98.0	115.5	-24.9	94.9	-8.6	
EBITDA Margin (%)	9.0	11.0	13.8	-487 bps	10.5	-149 bps	Higher raw material costs and spike in other expenses drags EBITDA margins
Depreciation	13.8	11.5	9.8	41.4	11.2	23.4	Higher depreciation expenses associated with addition of new capacities
Interest	1.5	1.2	1.2	22.6	3.1	-51.6	
PBT	74.2	90.7	110.1	-32.6	83.2	-10.8	
Total Tax	20.3	21.9	31.9	-36.4	23.8	-14.8	
PAT	53.9	68.8	78.3	-31.1	59.4	-9.2	Sharp decline in EBITDA margin drags overall PAT
Key Metrics							
Electronics	199.9	208.1	207.4	-3.6	209.2	-4.4	Sales declined is attributable to high base and low inventory buildup of seasonal products (like stabilisers) due to fear of lockdown
Electricals	429.2	388.2	363.5	18.1	418.8	2.5	Sharp price hikes helped drive revenue growth in electricals segments
Consumer Durable	338.4	294.7	264.1	28.1	279.4	21.1	Favourable base, new product launches and expansion in non south regions drive revenue growth in Q3FY22

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% chg	Old	New	% chg	Old	New	% chg	
Revenue	3,203.3	3384.6	5.7	3,791.6	3911.2	3.2	4214.1	4335.8	2.9	We have slightly tweaked our revenue estimates upward considering improved utilisation of new plants and expansion in new geographies. We estimates revenue CAGR of 17% in FY21-24E led by 20% revenue CAGR in Consumer Durable segment
EBITDA	310.8	318.5	2.5	401.9	414.6	3.2	455.1	463.9	1.9	
EBITDA Mar %	9.7	9.4	-29bps	10.6	10.6	0bps	10.8	10.7	-10bps	We have largely maintained our margin estimates
PAT	212.8	198.5	(6.7)	294.3	278.4	(5.4)	333.0	310.4	(6.8)	Higher depreciation expense and tax provisions led to decline in our PAT estimate
EPS (₹)	5.0	4.6	(6.7)	6.9	6.5	(5.4)	7.8	7.2	(6.8)	

Source: ICICI Direct Research

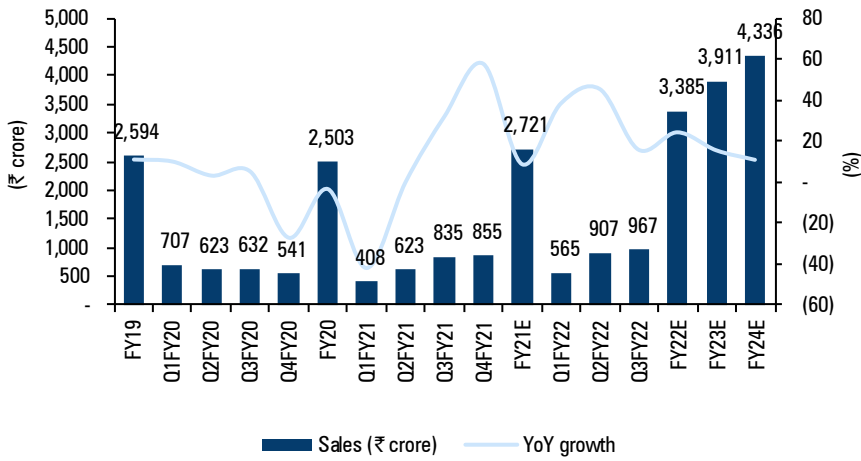
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Electronics Growth	-0.7	0.6	7.0	18.6	11.8	8.7	21.4	12.7	Recovery in demand of cooling products will drive demand of stabilisers while UPS segment sales will be driven by new launches
Electricals Growth	-7.1	14.1	27.6	15.0	10.3	17.9	17.4	10.3	We believe recovery in the construction activities would drive demand of wire, pump and new launches in the switchgear segment
Cons. Durable Growth	-0.5	9.2	37.0	14.0	11.0	26.7	17.1	11.1	Favourable base and new product launches (water purifier, breakfast appliances, and kitchen hobs and Chimneys) will drive segment revenue

Source: ICICI Direct Research

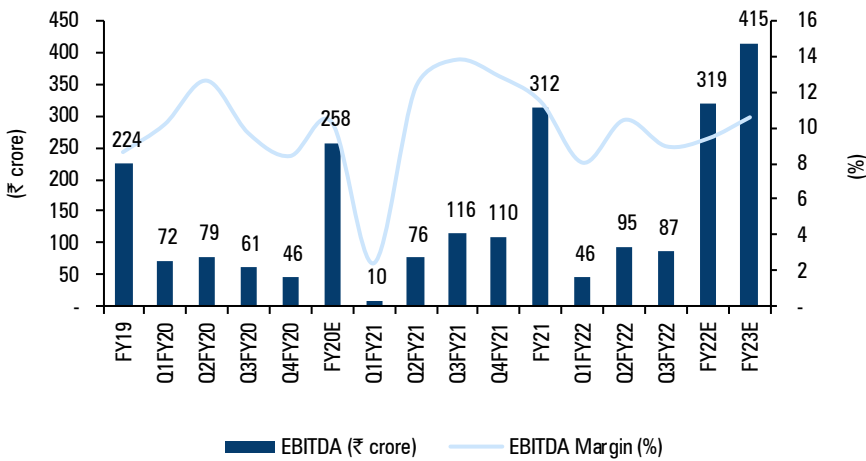
Financial story in charts

Exhibit 5: Faster recovery of seasonal product to drive future sales



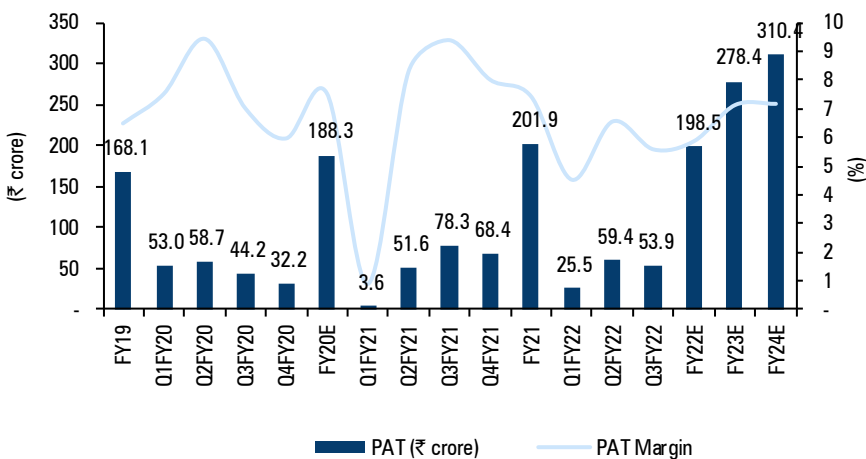
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT movement



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	2721.2	3384.6	3911.2	4335.8
Growth (%)	4.9	24.4	15.6	10.9
Expenses				
Raw Material Expenses	1852.5	2301.5	2659.6	2926.7
stock				
Employee Expenses	226.6	280.9	293.3	320.9
Administrative Expenses	305.5	419.7	449.8	520.3
Total Operating Expenditure	2409.1	3066.0	3496.6	3871.9
EBITDA	312.1	318.5	414.6	463.9
Growth (%)	39.1	2.1	30.2	11.9
Other Income	20.7	13.5	23.5	26.0
Interest	6.1	7.8	2.5	3.4
PBDT	326.7	324.2	435.5	486.5
Depreciation	38.6	50.4	63.4	71.5
PBT before Exceptional Items	288.1	273.8	372.2	415.0
PBT	288.1	273.8	372.2	415.0
Total Tax	86.2	75.3	93.8	104.6
PAT	201.9	198.5	278.4	310.4

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	201.9	198.5	278.4	310.4
Depreciation	38.6	50.4	63.4	71.5
Cash Flow before working capital ch	246.6	256.7	344.3	385.4
Net Increase in Current Assets	-205.3	-126.7	-226.4	-160.2
Net Increase in Current Liabilities	184.7	154.1	49.2	82.8
Net cash flow from operating act	226.0	284.1	167.0	308.0
(Purchase)/Sale of Fixed Assets	-76.6	-60.0	-70.0	-70.0
Net Cash flow from Investing act	-64.3	-56.2	-70.0	-70.0
Inc / (Dec) in Equity Capital	0.0	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	-51.4	-103.1	-154.6	-154.6
Net Cash flow from Financing act	7.9	-215.0	-147.1	-148.0
Net Cash flow	169.6	12.9	-50.1	90.0
Cash and Cash Equivalent at the beg.	111.6	281.2	294.1	244.0
Cash	281.2	294.1	244.0	334.0

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	42.8	42.8	42.8	42.8
Reserve and Surplus	1168.3	1149.6	1273.4	1429.2
Total Shareholders funds	1211.1	1192.4	1316.2	1472.0
Total Debt	13.0	23.0	33.0	43.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Total Liability	1080.3	1315.6	1306.9	1440.6
Assets				
Total Gross Block	585.6	654.2	724.2	794.2
Less Total Accumulated Depr	219.6	270.0	333.3	404.9
Net Block	366.0	384.2	390.8	389.3
Total Fixed Assets	385.6	395.2	401.8	400.3
Inventory	631.5	667.6	771.5	855.3
Debtors	388.1	435.8	535.8	594.0
Loans and Advances	3.7	4.4	5.1	5.6
Cash	281.2	294.1	244.0	334.0
Total Current Assets	1403.1	1542.7	1719.1	1969.2
Creditors	474.7	556.4	589.4	653.3
Provisions	55.0	85.2	90.3	100.1
Total Current Liabilities	559.2	713.3	762.5	845.3
Net Current Assets	843.9	829.4	956.5	1123.9
Total Assets	1080.3	1315.6	1306.9	1440.7

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data (₹)				
EPS	4.7	4.6	6.5	7.2
Cash EPS	5.6	5.8	8.0	8.9
BV	28.3	27.8	30.7	34.4
DPS	1.2	2.4	3.6	3.6
Operating Ratios (%)				
EBITDA Margin	11.5	9.4	10.6	10.7
PAT Margin	7.4	5.9	7.1	7.2
Return Ratios (%)				
RoE	16.7	16.6	21.2	21.1
RoCE	23.9	23.1	27.7	27.5
RoIC	28.4	28.1	30.9	32.4
Valuation Ratios (x)				
EV / EBITDA	28.6	28.1	21.7	19.2
P/E	45.6	46.4	33.1	29.7
EV / Net Sales	3.3	2.6	2.3	2.1
Market Cap / Sales	3.4	2.7	2.4	2.1
Price to Book Value	7.6	7.7	7.0	6.3
Turnover Ratios (x)				
Asset turnover	2.2	2.8	2.9	2.9
Debtors Days	52.1	47.0	50.0	50.0
Creditors Days	63.7	60.0	55.0	55.0
Solvency Ratios (x)				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.0	1.8	1.9	1.9
Quick Ratio	0.9	0.8	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,203	3,870	Buy	3,07,168	33.4	32.4	46.5	58.2	95.8	99.0	68.9	55.0	62.3	64.3	46.3	37.1	29.6	28.0	35.6	39.4	25.0	23.4	29.9	32.6
Berger Paints (BERPAI)	736	845	Hold	71,480	7.4	7.7	10.1	12.9	99.3	96.0	72.9	57.0	59.9	58.8	46.5	37.0	24.9	25.2	30.9	34.9	21.3	21.0	25.6	28.6
Kansai Nerolac (KANNER)	555	630	Hold	29,910	10.2	9.0	13.3	15.6	54.1	61.5	41.9	35.5	35.0	39.2	27.7	23.5	17.6	15.7	20.8	22.3	13.7	12.1	16.0	16.9
Pidilite Industries (PIDIND)	2,503	2,640	Hold	1,27,102	22.2	23.9	29.8	35.3	112.9	104.7	83.9	71.0	75.4	68.0	56.6	48.4	23.8	22.1	26.3	30.1	20.2	18.6	22.3	25.3
Bajaj Electricals (BAJELE)	1,218	1,280	Buy	13,952	16.5	20.7	32.9	38.3	73.8	58.8	37.0	31.8	46.8	39.0	26.6	23.6	15.1	18.8	24.9	24.1	10.7	14.9	19.7	19.1
Crompton Greaves(CROGR)	411	525	Buy	25,761	9.8	9.0	11.3	13.2	41.8	45.9	36.3	31.1	34.3	33.1	27.5	23.5	34.4	35.9	41.0	42.1	31.9	28.2	32.3	32.8
Havells India (HAVIND)	1,206	1,515	Buy	75,242	16.7	18.5	22.3	28.6	72.4	65.0	54.0	42.2	47.3	43.9	36.7	29.0	24.9	25.5	29.2	35.7	20.1	21.1	24.2	29.4
Polycab India (POLI)	2,494	3,000	Buy	37,190	59.4	55.0	69.2	84.9	42.0	45.3	36.1	29.4	32.6	32.5	24.1	19.8	20.8	18.3	22.2	23.3	17.9	14.5	17.0	18.0
Symphony (SYMLIM)	989	975	Hold	6,919	15.3	18.4	29.0	39.1	64.7	53.9	34.2	25.3	48.5	39.3	25.5	18.8	15.2	20.2	28.5	33.3	14.9	18.0	25.6	29.1
V-Guard Ind (VGUARD)	215	255	Buy	9,208	4.7	4.6	6.5	7.2	45.6	46.4	33.1	29.7	28.6	28.1	21.7	19.2	23.9	23.1	27.7	27.5	16.7	16.6	21.2	21.1
Voltas Ltd (VOLTAS)	1,220	1,375	Hold	40,350	16.0	19.8	25.2	33.3	76.3	61.5	48.4	36.7	62.2	54.0	42.9	35.0	15.0	18.5	20.8	21.8	10.6	13.6	15.4	17.5
Amber Enterprises (AMBER)	3,888	4,330	Buy	13,100	24.7	45.7	76.4	104.5	157.3	85.1	50.9	37.2	59.2	42.2	28.6	22.3	7.7	11.1	15.2	18.0	5.2	9.2	13.4	15.6
Dixon Technologies (DIXTE)	4,525	5,700	Buy	26,856	27.3	35.9	78.5	110.9	165.9	125.9	57.6	40.8	93.7	65.3	35.9	26.5	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	2,014	2,625	Buy	25,583	77.0	72.3	82.3	93.4	26.2	27.9	24.5	21.6	19.3	20.5	17.7	15.4	33.1	26.9	27.0	27.5	30.9	25.6	25.1	25.0
Astral Ltd (ASTPOL)	2,184	2,375	Hold	43,873	20.3	23.3	30.6	38.3	107.5	93.8	71.3	57.0	67.4	59.8	46.5	37.8	27.5	28.1	31.9	33.1	21.5	21.8	24.5	25.3

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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