

May 20, 2022

RESULT REPORT Q4 FY22 | Sector: Consumer Durables

V-Guard Industries

Growth momentum maintained with strong margin delivery as well; reiterate BUY

Result Synopsis

VGRD reported better than expected revenue growth of 23.7% beating estimates for 3rd consecutive quarter. The growth was driven by a strong performance in consumer durables and electrical segments which grew 32.3% and 32.5% respectively. The company has now started to deliver on the margin front as well despite continued commodity price inflation. The company is confident of growth momentum continuing in Q1FY23 onwards and on margin front, they expect to achieve double-digit EBITDA margins assuming the worst of commodity inflation is behind them. Current high levels of inventory are also likely to get normalized by Q2FY23 as inventory has already started to reduce from May. Moreover, the company is also looking to increase in-house manufacturing which is expected to increase efficiencies and reduce supply-chain shocks that it encountered in the past. Considering the above reasons and recent outperformance in terms of revenue growth, we continue to maintain our positive stance on the stock and our BUY rating.

We believe VGRD's brand strength, investments in own manufacturing and increased distribution in non-South markets are now paying rich dividends with Southern market also gaining traction after a lull of couple of years. This improvement in execution and growth trajectory company should now start commanding higher valuation multiples. We have upgraded our EPS in FY23 and FY24 by 8.5% and 5.8% respectively and now build-in FY22-24E Revenue/EBITDA/PAT CAGR of 13%/20%/20% with a revised PT of Rs293 and continue to value company at 40x FY24 EPS and maintain our BUY rating. Consistent delivery and margin improvement would be key for further earnings upgrades.

Result Highlights

- Quarter summary** – Strong Q4 growth has been aided by traction in consumer durables and electrical segment which grew at 32.3% and 32.5% respectively. Company has increased prices of products by 10% (ex-wires) in FY22 to pass on commodity inflation.
- Margin** – Gross margins were impacted by continued commodity price inflation. Lower gross margins have resulted in contraction of EBITDA margin. Company is confident of achieving double digit EBITDA margin in FY23.
- Investments** – During the quarter, company has made further investments of Rs151.7mn in V-Guard Consumer Products Ltd taking total investments to Rs600mn. The first project under VCPL has started with manufacturing of electronics.
- Working capital and operating cashflow** – Company's working capital has increased on higher inventory levels which is a conscious decision by the company. Inventory levels will be normalized by Q2. CFO in FY22 was negative at Rs343mn.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	10,582	8,796	9,481	20.3	11.6	
EBITDA	1,110	809	924	37.3	20.1	
EBITDA Margin (%)	10.5	9.2	10.8	130 bps	-30 bps	Consumer durables and Electrical segment has propelled solid revenue growth
Adjusted PAT	896	493	584	81.6	53.4	

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 224
Target Price	: Rs 293
Potential Return	: +30.9%

Stock data (as on May 20, 2022)

Nifty	16,266
52 Week h/l (Rs)	285 / 181
Market cap (Rs/USD mn)	97054 / 1252
Outstanding Shares (mn)	432
6m Avg t/o (Rs mn):	93
Div yield (%)	0.6
Bloomberg code:	VGRD IN
NSE code:	VGUARD

Stock performance



Shareholding pattern (As of Mar'22 end)

Promoter	55.9%
FII+DII	30.0%
Others	14.1%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	293	276

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	6.4	7.3
EPS (Old)	5.9	6.9
% change	8.5%	5.8%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	34,982	40,229	44,869
YoY Growth	28.6%	15.0%	11.5%
EBITDA	3,382	4,264	4,846
YoY Growth	8.4	26.1	13.6
PAT	2,188	2,744	3,163
YoY Growth	9.0%	25.4%	15.3%
ROE	16.7	18.2	18.3
EPS	5.1	6.4	7.3
P/E	44.2	35.2	30.6
BV	32.7	37.5	42.9
EV/EBITDA	28.4	22.1	19.2

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Exhibit 2: Quarterly snapshot (Consolidated): Consumer durables and electrical segment have led to growth

Particulars (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	y/y %	q/q %	FY22	FY21	y/y %
Sales	8,552	5,652	9,074	9,674	10,582	23.7	9.4	34,982	27,212	28.6
EBITDA	1104	455	949	868	1110	0.6	27.9	3,382	3,121	8.4
EBITDA Margin %	12.9	8.1	10.5	9.0	10.5			9.7	11.5	
Depreciation	120	113	112	138	129	7.8	(6.3)	491	386	27.2
EBIT	984	343	837	730	981	(0.3)	34.4	2,891	2,735	5.7
EBIT Margin %	11.5	6.1	9.2	7.5	9.3			8.3	10.0	
Interest charges	26	15	31	15	18	(31.5)	17.4	79	61	29.2
Other Income	39	39	26	27	36	(7.5)	35.3	127.8	207	(38.4)
PBT	998	366	832	742	1000	0.2	34.8	2940	2881	2.0
Tax	314	111	238	203	104	(66.8)	(48.6)	655	862	(24.0)
Effective Tax Rate (%)	31.5	30.2	28.6	27.3	10.4			22.3	29.9	
PAT	684	255	594	539	896	31.0	66.1	2284	2019	13.1
PAT Margin %	8.0	4.5	6.5	5.6	8.5			6.5	7.4	
EPS (Rs)	1.6	0.6	1.4	1.2	2.1	30.6	66.1	5.3	4.7	12.8

Source: Company, YES Sec

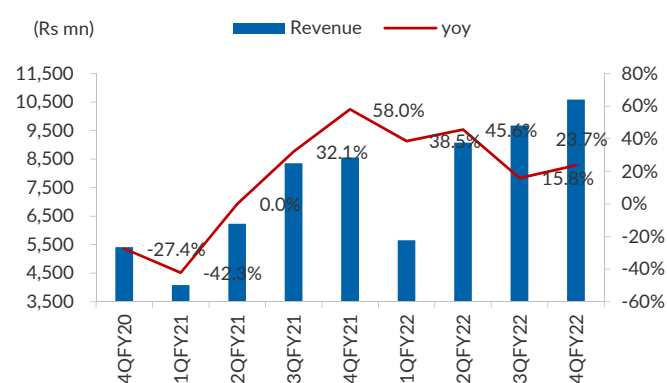
Exhibit 3: Segmental Performance

Rs mn	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Electronics	2,428	1,590	2,092	1,999	2,471	1.8	23.6	8,151	7,589	7.4
Electricals	3,887	2,565	4,188	4,292	5,152	32.5	20.1	16,197	12,257	32.1
Consumer Durables	2,237	1,497	2,794	3,384	2,959	32.3	(12.6)	10,634	7,367	44.4
Net Sales	8,552	5,652	9,074	9,674	10,582	23.7	9.4	34,982	27,212	28.6
PBIT										
Electronics	530.7	207.1	392.1	337.6	430.8	(18.8)	27.6	1367.6	1441.6	(5.1)
Electricals	427.3	254.2	421.1	355.3	555.2	29.9	56.3	1585.8	1,104	43.6
Consumer Durables	89.0	-58.9	84.6	95.8	49.5	(44.4)	(48.3)	171.0	403	(57.5)
Total PBIT	1,047	402	898	789	1,036	(1.1)	31.3	3,124	2,948	6.0
Finance Costs	25.7	15.4	30.9	15.0	17.6	(31.5)	17.4	78.8	61.0	29.2
Unallocable expense	24	21	35	32	18	(23.7)	(43.4)	105.9	6	1,564.5
as % of sales	0.3	0.4	0.4	0.3	0.2			0.3	0.0	
Exceptional Items	0	0	0	0	0			0	0	
PBT	998	366	832	742	1000	0.2	34.8	2,940	2,881	2.0
PBIT Margins (%)						(bps)	(bps)			(bps)
Electronics	21.9	13.0	18.7	16.9	17.4	(443)	54	16.8	19.0	(222)
Electricals	11.0	9.9	10.1	8.3	10.8	(22)	250	9.8	9.0	78
Consumer Durables	4.0	(3.9)	3.0	2.8	1.7	(231)	(116)	1.6	5.5	(386)
Total PBIT	12.2	7.1	9.9	8.2	9.8	(246)	163	8.9	10.8	(190)

Source: Company, YES Sec

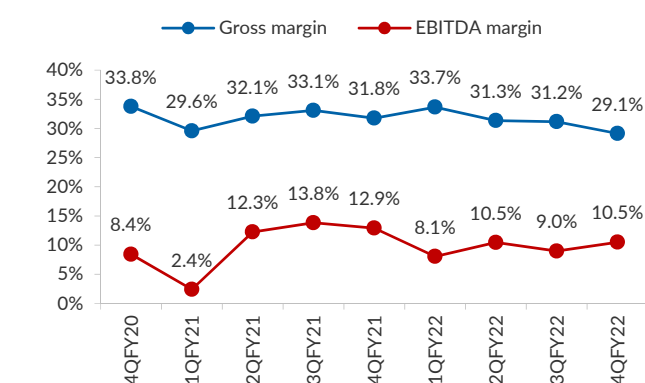
CHARTS

Exhibit 4: Strong growth in consumer durables and electricals segment have led to revenue beat



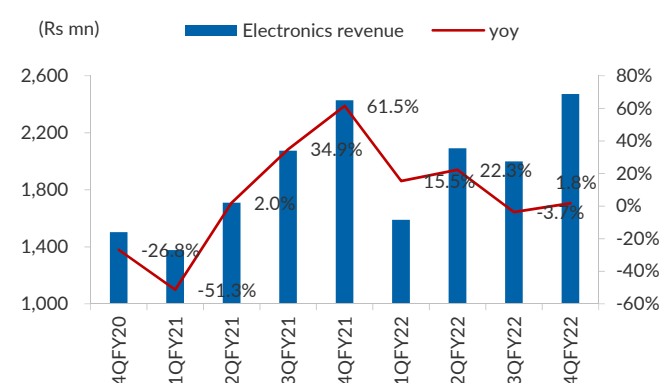
Source: Company, YES Sec

Exhibit 5: High commodity prices have resulted in gross margin contraction



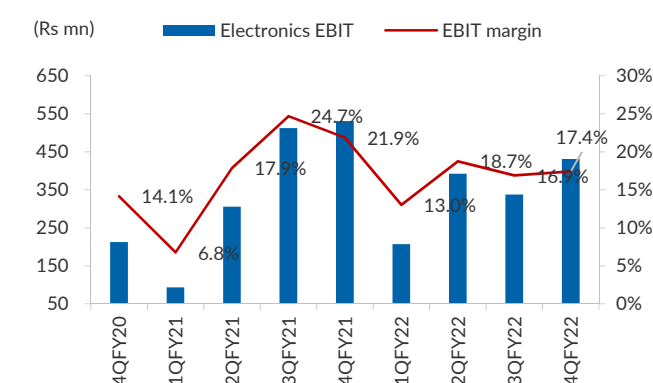
Source: Company, YES Sec

Exhibit 6: Electronics revenue has been flattish given subdued demand environment



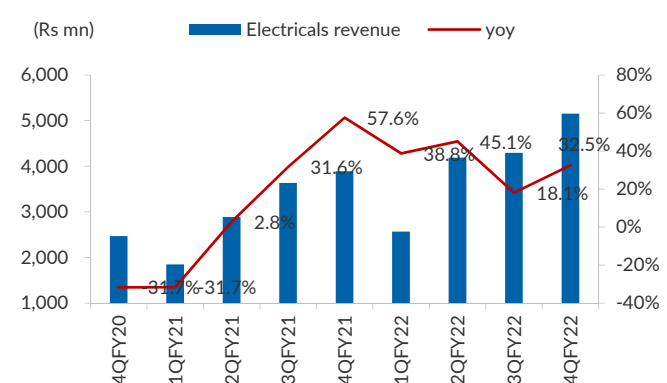
Source: Company, YES Sec

Exhibit 7: EBIT margins continue to be range bound



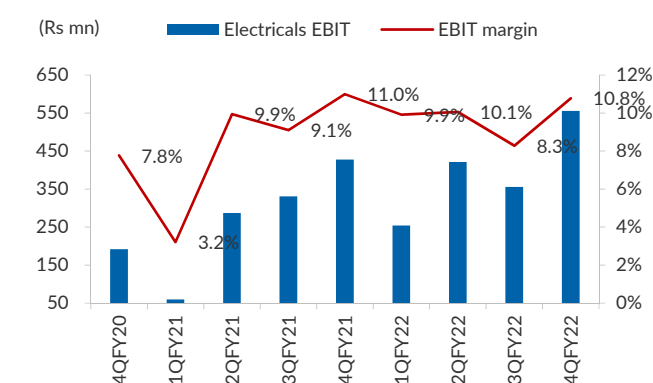
Source: Company, YES Sec

Exhibit 8: Price increases have led to growth in electricals revenue



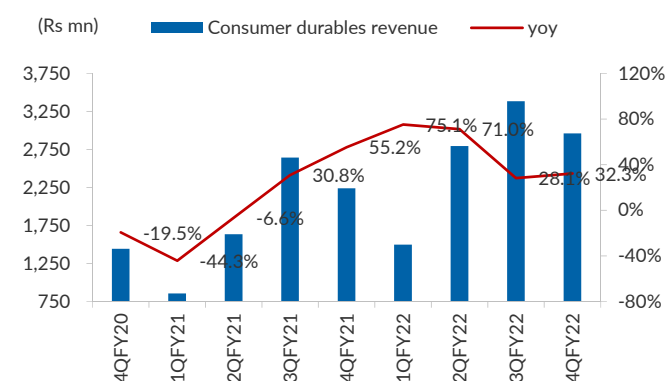
Source: Company, YES Sec

Exhibit 9: Margins have been higher on back of pricing actions



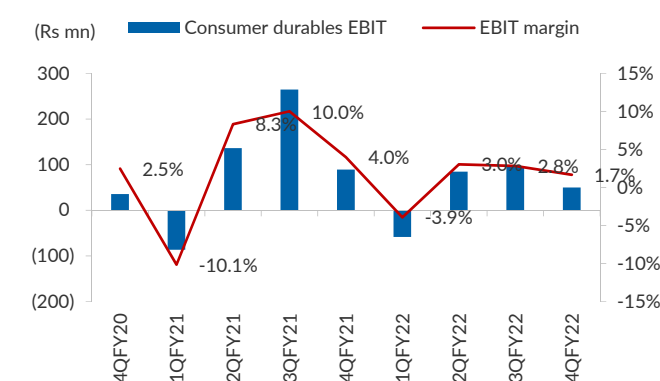
Source: Company, YES Sec

Exhibit 10: Consumer durables saw robust growth on back of premiumization



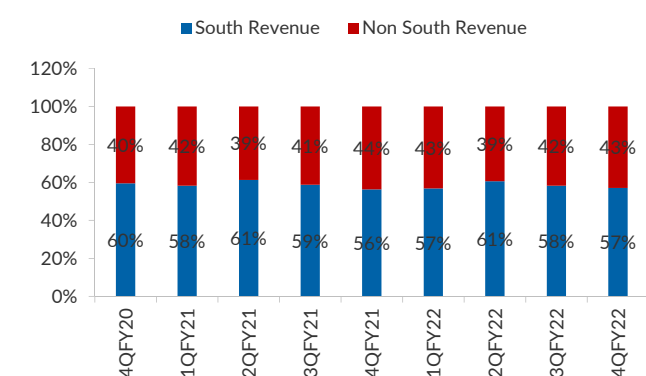
Source: Company, YES Sec

Exhibit 11: Commodity inflation has resulted in lower margin



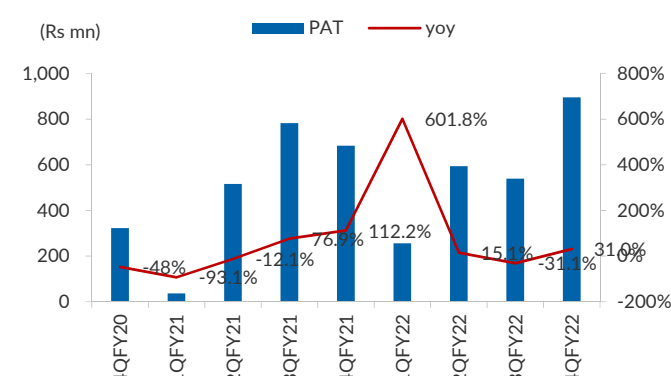
Source: Company, YES Sec

Exhibit 12: Contribution from non-South continues to remain steady



Source: Company, YES Sec

Exhibit 13: PAT has grown in-line with EBITDA



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Business update** – Despite some challenges related to the third wave in the first few weeks of the quarter, company was able to effectively carry forward the momentum from the prior quarter and ended the fiscal year on a strong note.
- **Margins** – Company expects to maintain double digit EBITDA margins in FY23 and believes worst in terms of commodity prices is behind.
- **Future Outlook** – V-Guard is well-positioned to benefit from the resilient customer demand given a wider product portfolio, expanded national presence and investments in capacity augmentation.
- **Demand for stabilizers and inverters** – After slow start to the quarter, April onwards, there has been strong demand for RAC stabilizers and also there has been some power shortage leading to demand for inverters. Month of May has been weak in South while there is strong demand from North and West. FY23 will be much better for electronics.
- **VCPL** – Company has invested Rs600mn in FY22 taking total investments in VCPL (V-guard Consumer Products) its first plant has been commissioned and has started producing stabilizers and inverters. Expect full range of products to be manufactured from June.
- **Employee costs** – Employee costs are lower on sequential basis as there was write-back of incentives and variable pay of the range of Rs50-70mn. In Q3 there was one time costs of Rs40mn, hence employee costs are lower.
- **Price hikes** – In FY22 company has undertaken price increase of 10% ex-wires and in wires price increase is in the range of 30-35%. Water heater and fans are the two categories where company has taken price increase in April'22. Another 2.5-5% price hikes are required to get back to normalized levels.
- **Inventory** – Inventory in the channel is at comfortable levels and 50-60% demand comes from summer products where demand continues to be strong. Inventory is higher by Rs1.5bn and it has come down by Rs0.4bn in month of May. Inventory has been increased by 30 days.
- **Capex** – Company is expected to incur capex of Rs2bn in next 3 years.
- **Consumer durables** – There has been strong growth in consumer durables , where major components are Fans and water heaters. Kitchen appliances have also grown well. Company has regained market share in water heaters. Excluding air coolers, growth in consumer durables is around 40% in FY22. Fans have also seen market share gains.
- **Working capital** – Working capital is higher as company is carrying higher inventory as company does not want to lose out on any sales due to supply chain issues. Inventory level is expected to come down post Q1 and expected to normalize going forward.
- **Water heater and Fans category** – Water heater and Fans plants are running at 70% capacity and it is expected to run at 100% capacity in next 3 months.
- **Fans and Kitchen Appliances** – Company is focusing on BLDC and energy efficiency fans and is working on new platforms for Fans. Company has launched Romanza range for energy efficient fans. In kitchen appliances, company is working on enhancing product portfolio.

FINANCIALS

Exhibit 14: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	428	430	432	432	432
Reserves	9,526	11,683	13,638	15,678	18,030
Net worth	9,991	12,160	14,124	16,164	18,516
Debt	128	130	118	118	131
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	469	663	678	780	870
Total liabilities	10,588	12,953	14,920	17,062	19,517
Fixed Asset	3,510	3,890	4,019	4,247	4,420
Investments	363	337	337	337	337
Other Non-current Assets	431	513	1,409	1,466	1,517
Net Working Capital	5,168	5,401	8,547	8,531	9,515
Inventories	4,790	6,315	8,596	7,638	8,519
Sundry debtors	3,243	3,881	4,841	6,315	7,044
Loans and Advances	1,072	995	30	34	38
Sundry creditors	3,051	4,747	4,880	5,412	6,036
Other current liabilities	529	503	682	784	875
Cash & equivalents	1,116	2,812	608	2,481	3,728
Total Assets	10,588	12,953	14,920	17,062	19,517

Source: Company, YES Sec

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	25,029	27,212	34,982	40,229	44,869
Operating profit	2,580	3,121	3,382	4,264	4,846
Depreciation	294	386	491	563	637
Interest expense	42	61	79	79	88
Other income	251	207	128	61	124
Profit before tax	2,496	2,881	2,940	3,684	4,246
Taxes	613	862	740	927	1,069
Minorities and other	11	11	12	13	14
Adj. profit	1,871	2,008	2,188	2,744	3,163
Exceptional items	-	-	-	-	-
Net profit	1,871	2,008	2,188	2,744	3,163

Source: Company, YES Sec

Exhibit 16: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	2,537	2,942	3,018	3,762	4,333
Depreciation	294	386	491	563	637
Tax paid	(613)	(862)	(740)	(927)	(1,069)
Working capital Δ	98	126	(3,146)	16	(984)
Other operating items					
Operating cashflow	2,316	2,593	(376)	3,414	2,917
Capital expenditure	(1,422)	(766)	(621)	(790)	(810)
Free cash flow	894	1,827	(997)	2,624	2,107
Equity raised	(34)	666	330	(0)	-
Investments	-	(334)	-	-	-
Debt financing/disposal	(2)	13	(5)	(0)	14
Interest paid	(42)	(61)	(79)	(79)	(88)
Dividends paid	(876)	(516)	(561)	(703)	(811)
Net Δ in cash	258	1,696	(2,204)	1,873	1,247

Source: Company, YES Sec

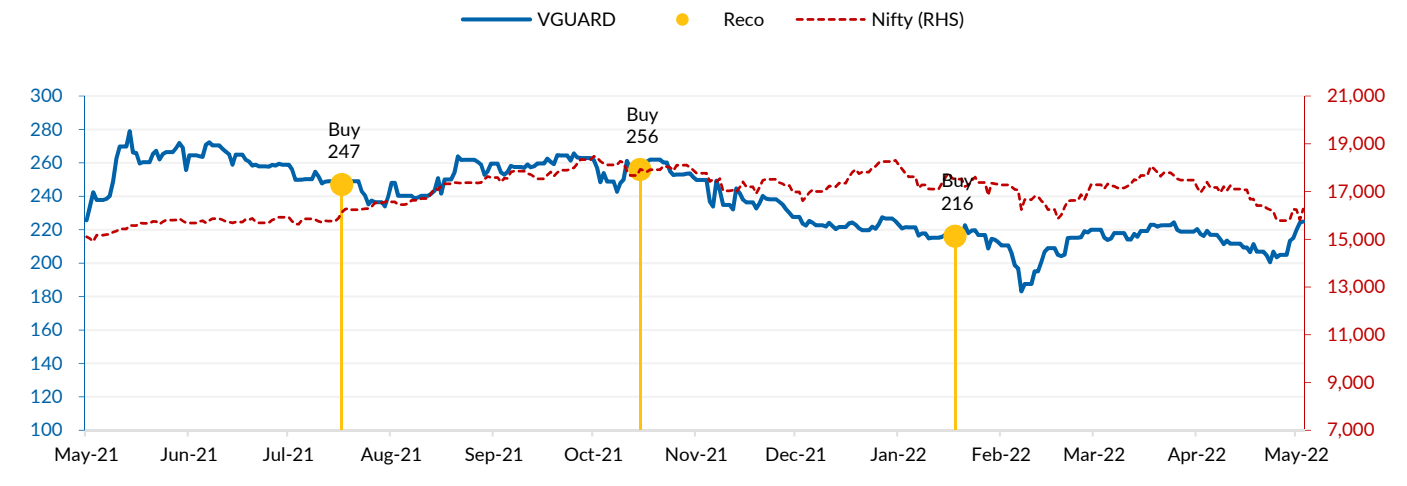
Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Tax burden (x)	0.75	0.70	0.74	0.74	0.74
Interest burden (x)	0.98	0.98	0.97	0.98	0.98
EBIT margin (x)	0.10	0.11	0.09	0.09	0.10
Asset turnover (x)	1.77	1.63	1.76	1.80	1.76
Financial leverage (x)	1.49	1.51	1.52	1.48	1.47
RoE (%)	19.7	18.2	16.7	18.2	18.3

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	(3.5)	8.7	28.6	15.0	11.5
Op profit growth	15.0	21.0	8.4	26.1	13.6
EBIT growth	14.6	15.9	2.6	24.6	15.2
Net profit growth	11.9	7.3	9.0	25.4	15.3
Profitability ratios (%)					
OPM	10.3	11.5	9.7	10.6	10.8
EBIT margin	10.1	10.8	8.6	9.4	9.7
Net profit margin	7.5	7.4	6.3	6.8	7.0
RoCE	26.3	26.3	22.8	24.7	24.8
RoNW	19.7	18.2	16.7	18.2	18.3
RoA	13.2	12.1	11.0	12.3	12.4
Per share ratios					
EPS	4.4	4.7	5.1	6.4	7.3
Dividend per share	1.7	1.2	1.3	1.6	1.9
Cash EPS	5.1	5.6	6.2	7.7	8.8
Book value per share	23.3	28.3	32.7	37.5	42.9
Valuation ratios					
P/E	51.3	48.0	44.2	35.2	30.6
P/CEPS	44.3	40.2	36.1	29.2	25.4
P/B	9.6	8.0	6.9	6.0	5.2
EV/EBIDTA	36.8	30.0	28.4	22.1	19.2
Payout (%)					
Dividend payout	47	25.7	25.6	25.6	25.6
Tax payout	25	29.9	25.2	25.2	25.2
Liquidity ratios					
Debtor days	47	52.1	50.5	57.3	57.3
Inventory days	70	84.7	89.7	69.3	69.3
Creditor days	44.5	63.7	50.9	49.1	49.1

Recommendation Tracker



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