

## Strong performance amid challenging scenario...

V-Guard saw a sharp demand recovery in Q2FY21 QoQ and managed to report revenues in line with base quarter of Q2FY20. The non-south regions (~39% of topline) revenue increased 4% YoY led by strong demand recovery in the north and western markets. However, southern region (~61% of topline) witnessed a revenue decline of 3% YoY mainly due to intermittent lockdown in Kerala (~22% of total topline). While the company witnessed a strong demand recovery, supply was impacted due to plant shutdown in Sikkim and low plant utilisation of key vendors amid covid-19 related lockdowns. On the profitability front, the EBITDA margin saw a sharp recovery from 2.2% in Q1FY21 to 12% led by better gross margin and savings in other costs. On a YoY basis, adjusting for one-offs relating to ESOP write-back (of ~₹ 10 crore) on base, underlying EBITDA for Q2FY21 would have been up 6% YoY. On bottomline front, higher effective tax rate (due to lower profit contribution from Sikkim plant in H1) dragged PAT by ~13% YoY at ₹ 50 crore. On the balance sheet side, cash flows remain strong and prudent working capital management has resulted in over ₹ 300 crore of cash generation in H1FY21. We revise our FY21E, FY22E earnings estimates upward marginally.

### Recovery led by non-south regions

Sales recovery was largely led by non-south regions such as north and west regions while southern region sales declined ~3% YoY due to intermittent lockdown in Kerala. The company is focused on increasing revenue contribution from non-south regions to 52-53% in the next four to five years from 39% now. We expect channel filling amid subsiding supply related concerns and festive demand. H2FY21 is likely to be robust for V-Guard. We model revenue CAGR of ~10% in FY20-23E led by ~12%, 11% and 9% growth in electronic, consumer durable and electrical segment, respectively.

### Various cost optimisation measures to protect margins

The company witnessed QoQ increase in EBITDA margin led by various cost optimisation measures. On a YoY basis, the base quarter includes ~₹ 10.2 crore of Esop provision. Adjusting with one-off expense in Q2FY20 and Q2FY21, EBITDA margin would see an improvement of 70 bps YoY. The reported EBITDA margin was down ~50 bps YoY at 12%.

### Valuation & Outlook

We believe H2FY21 will be strong for V-Guard supported by normalisation of supplies and building of inventory (inventory is lower by 10-15 days vs. normal) due to festive demand and upcoming season. Further, the balance sheet quality has remained healthy with net cash position increasing to ~ ₹ 453 crore as on September 2020 vs. ₹ 289 crore in March 2020. We model revenue, earning CAGR of 10%, 13%, respectively, supported by better margin. We reiterate **BUY** rating and maintain our target price at ₹ 210.



#### Particulars

Particular	Amount
Market Capitalization (₹Crore)	7,280.9
Total Debt (FY 20) (₹Crore)	10.0
Cash and Inv (FY 20) (₹Crore)	111.3
EV (₹Crore)	7,179.6
52 week H/L	260 / 149
Equity capital (₹Crore)	42.5
Face value (₹)	1.0

#### Key Highlights

- Non south regions revenue, which contributes ~39% in topline increased by 4%. South regions revenue were marred by intermittent lockdown in Kerala
- EBITDA margin came in 12% down by 50 bps YoY. However, adjusting with one-time ESOP expenses in base period, EBITDA margin would have been higher by 70 bps YoY
- Expectation of strong H2FY21 led by normalisation in business activity
- Maintain BUY rating on stock with target price of ₹ 210/share

#### Research Analyst

Sanjay Manyal  
sanjay.manyal@icicisecurities.com

Hitesh Taunk  
hitesh.taunk@icicisecurities.com

#### Key Financial Summary

(₹Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2566.4	2482.0	2360.4	2980.6	3327.3	10.3
EBITDA	219.4	253.3	224.2	313.0	366.0	13.1
EBITDA Margin (%)	8.5	10.2	9.5	10.5	11.0	
PAT	165.5	185.2	157.8	227.5	265.5	12.8
EPS (₹)	3.9	4.3	3.7	5.3	6.2	
P/E(x)	43.6	39.3	46.1	32.0	27.4	
Price /Book Value (x)	8.0	7.3	7.0	6.0	5.3	
EV/EBITDA (x)	32.5	28.2	32.3	23.1	19.7	
RoE (%)	18.4	18.6	15.1	18.8	19.3	
RoCE (%)	23.7	24.8	20.1	24.4	25.1	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comment
Revenue	616.7	619.3	-0.4	405.8	51.9	Strong recovery in the sales of Fan, Pump and Digital UPS segment drives the sales
Other Income	6.6	6.9	-4.0	4.7	41.4	
Raw Material Exp	206.8	153.6	34.6	230.7	-10.3	Change in product mix and low plant utilisation impacted the gross margin (down by ~220 bps YoY)
Employee Exp	50.2	45.0	11.6	54.6	(8.1)	Benefit of writeback of ESOP provision of ₹10 in base period
Other Exp	70.5	86.6	-18.5	54.9	28.5	Advertisement & promotional expense lower at 0.5% of revenues as compared to 1.7% in Q2FY 20
Purchase of Traded goods	215.1	256.5	-16.1	56.6	280.3	
EBITDA	73.9	77.6	-4.7	9.1	715.9	
EBITDA Margin (%)	12.0	12.5	-54 bps	2.2	976 bps	Low gross margin impact was partially offset by lower other costs
Depreciation	8.4	6.9	20.7	7.9	6.1	
Interest	1.0	0.8	26.0	1.1	-3.7	
PBT	71.2	76.7	-7.2	4.8	1,384.6	
Total Tax	21.1	19.4	8.9	1.2	1,705.9	Effective tax rate is higher due to lower profit contribution from Sikkim plant in H1
PAT	50.0	57.3	-12.7	3.6	1,280.8	
<b>Key Metrics</b>						
Electronics	171.0	167.6	2.0	137.7	24.2	Electronic segment growth was led by digital UPS segment
Electricals	282.0	276.8	1.9	182.7	54.4	Electrical segment recovery was led by pump sales
Consumer Durable	163.0	175.0	-6.9	85.5	90.7	Intermittent lockdowns in Kerala impacted the performance

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	%chg	Old	New	%chg	Introduced	
Revenue	2,267.2	2360.4	4.1	2,805.4	2980.6	6.2	3327.3	We slightly tweaked our estimate for FY 21E and FY 22E considering Q2FY 21 performance. We introduce FY 23E estimate with topline growth of 11% YoY
EBITDA	215.4	224.2	4.1	308.6	313.0	1.4	366.0	
EBITDA Mar %	9.5	9.5	0bps	11.0	10.5	-50bps	11.0	
PAT	153.8	157.8	2.6	222.8	227.5	2.1	265.5	
EPS (₹)	3.6	3.7	2.6	5.2	5.3	2.1	6.2	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current			FY23E	Earlier		Comments
	FY20	FY21E	FY22E	Introduced	FY21E	FY22E	
Electronics Growth	-0.7	-8.1	34.0	12.7	-12.8	29.7	We estimate recovery in the business from 2HFY 21 onwards supported by better demand of cooling products
Electricals Growth	-6.7	-3.7	23.0	9.5	-10.5	19.2	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	-3.2	23.2	13.7	-1.2	24.2	Performance of consumer durable segment will be driven by low base of new products like water purifier, breakfast appliances, and kitchen hobs and Chimneys

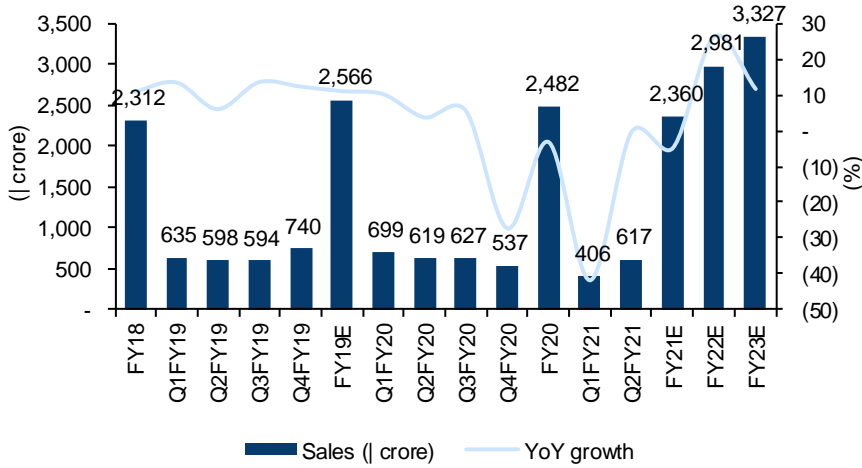
Source: Company, ICICI Direct Research

## Conference call highlights

- The new plant in Sikkim faced a complete shutdown for almost a month due to Covid-19 cases. The sales loss was around ~₹ 30 crore from closure of the plant. Some key vendors also faced same issues
- The regions that were impacted by lockdown were Kerala, Bihar and West Bengal
- With ease in supply related concern and opening up market, H2FY21 is likely to be strong
- The channel inventory is ~10-15 days lower compared to normal level
- Working capital days improved by 53 days compared to 61 days in Q1FY21 due to improved collection during the period and payable days
- The company has net cash of ₹ 453 crore by the end of September 2020
- The unorganised category has suffered in the lockdown and benefitted organised players
- 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
- The online sales contributes ~6-8% of topline and recorded a strong growth of 40% YoY (on a lower base). The online sales contribution in Q1FY21 was ~3% of total revenue
- During the quarter, the company launched a range of new products – water purifiers, breakfast appliances, kitchen hobs and chimneys – through online channels
- While some of the costs likely to be restored in the coming period, some of the cost optimisation measures and improved product mix are likely to drive EBITDA margin, going forward

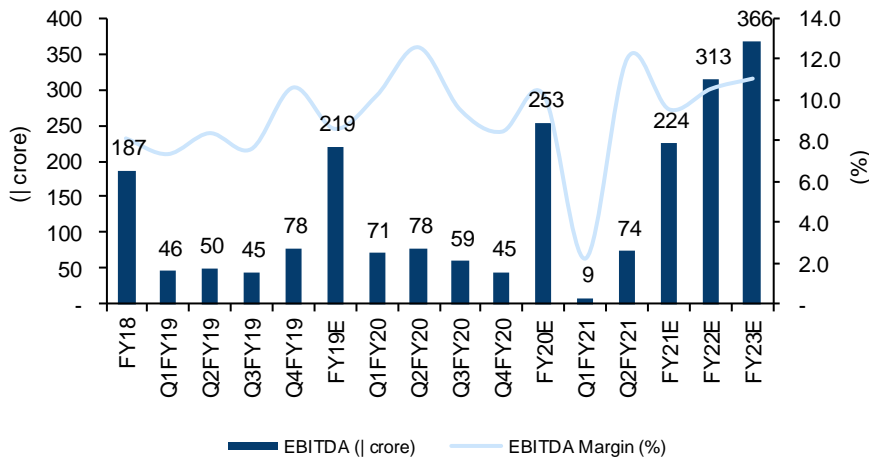
### Financial story in charts

**Exhibit 4: Faster recovery in south regions, gradual opening of domestic markets to help drive revenue of company**



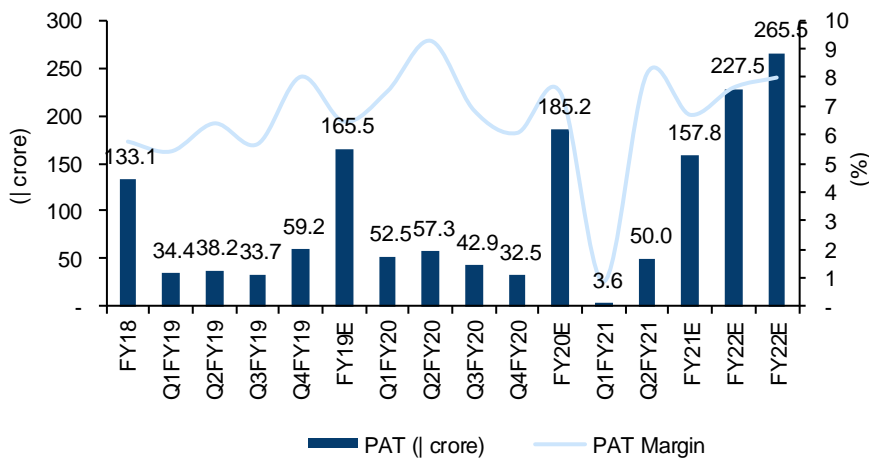
Source: Company, ICICI Direct Research

**Exhibit 5: EBITDA margin movement**



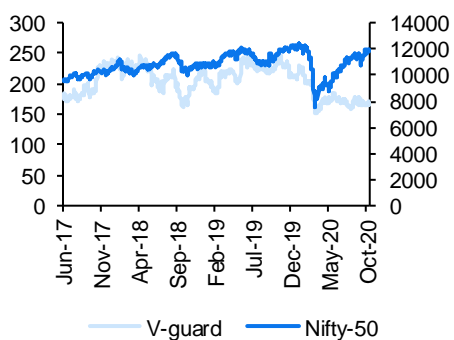
Source: Company, ICICI Direct Research

**Exhibit 6: PAT growth led by margin expansion**



Source: Company, ICICI Direct Research

Exhibit 7: Historical price trend



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	64.1	62.8	62.7	62.7	62.6
FII	12.9	13.5	13.4	13.1	12.5
DII	12.1	13.1	13.4	13.3	13.1
Others	10.9	10.6	10.5	10.9	11.8

Source: Company, ICICI Direct Research

## Financial summary

Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Net Sales	2482.0	2360.4	2980.6	3327.3	
Growth (%)	-3.3	-4.9	26.3	11.6	
Expenses					
Raw Material Expenses	635.9	708.1	864.4	948.3	
Purchase of stock	1022.3	908.8	1147.5	1281.0	
Employee Expenses	206.8	212.4	253.4	282.8	
Administrative Expenses	363.7	306.9	402.4	449.2	
Total Operating Expenditu	2228.7	2136.2	2667.7	2961.3	
EBITDA	253.3	224.2	313.0	366.0	
Growth (%)	15.4	-11.5	39.6	16.9	
Other Income					
Other Income	24.0	23.2	25.6	28.2	
Interest	3.7	5.1	3.5	4.9	
PBDT	273.5	242.3	335.1	389.3	
Depreciation	28.1	33.0	35.8	39.9	
PBT before Exceptional lte	245.4	209.3	299.3	349.3	
PBT	245.4	209.3	299.3	349.3	
Total Tax	60.3	51.5	71.8	83.8	
PAT	185.2	157.8	227.5	265.5	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Equity Capital	42.8	42.8	42.8	42.8	
Reserve and Surplus	950.7	1002.4	1168.1	1330.5	
Total Shareholders funds	993.5	1045.3	1210.9	1373.3	
Total Debt	10.0	20.0	30.0	40.0	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Total Liability	497.5	640.8	757.9	915.6	
Assets					
Total Gross Block	445.6	571.5	641.5	711.5	
Less Total Accumulated L	177.9	210.9	246.7	286.6	
Net Block	267.8	360.6	394.8	424.9	
Total Fixed Assets	334.6	371.6	405.8	435.9	
Inventory	476.4	485.0	588.0	656.3	
Debtors	321.8	394.5	498.1	556.1	
Loans and Advances	8.6	3.1	3.9	4.3	
Cash	111.3	29.5	31.2	83.7	
Total Current Assets	1021.3	1010.3	1245.1	1438.8	
Creditors	300.7	271.6	343.0	382.9	
Provisions	46.0	41.6	52.5	58.6	
Total Current Liabilities	399.3	363.2	458.7	512.0	
Net Current Assets	622.0	647.0	786.4	926.8	
Total Assets	497.5	640.8	757.9	915.6	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	185.2	157.8	227.5	265.5	
Depreciation	28.1	33.0	35.8	39.9	
Cash Flow before working capital ch	217.0	196.0	266.7	310.3	
Net Increase in Current Assets	10.0	-70.7	-233.2	-141.2	
Net Increase in Current Liabilities	-44.3	-36.1	95.4	53.3	
Net cash flow from operating act	182.7	89.2	129.0	222.5	
(Purchase)/Sale of Fixed Assets	-141.2	-70.0	-70.0	-70.0	
Net Cash flow from Investing act	-61.0	-69.8	-72.0	-72.0	
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	-46.4	-51.5	-61.8	-103.1	
Net Cash flow from Financing act	-95.1	-101.1	-55.3	-98.0	
Net Cash flow	26.6	-81.7	1.6	52.5	
Cash and Cash Equivalent at the beg.	84.7	111.3	29.5	31.2	
Cash	111.3	29.5	31.2	83.7	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per Share Data (₹)					
EPS	4.3	3.7	5.3	6.2	
Cash EPS	5.0	4.5	6.1	7.1	
BV	23.2	24.4	28.3	32.1	
DPS	1.1	1.2	1.4	2.4	
Operating Ratios (%)					
EBITDA Margin	10.2	9.5	10.5	11.0	
PAT Margin	7.5	6.7	7.6	8.0	
Return Ratios (%)					
RoE	18.6	15.1	18.8	19.3	
RoCE	24.8	20.1	24.4	25.1	
RoIC	28.6	19.4	23.9	25.5	
Valuation Ratios (x)					
EV / EBITDA	28.2	32.3	23.1	19.7	
P/E	39.3	46.1	32.0	27.4	
EV / Net Sales	2.9	3.1	2.4	2.2	
Market Cap / Sales	2.9	3.1	2.4	2.2	
Price to Book Value	7.3	7.0	6.0	5.3	
Turnover Ratios (x)					
Asset turnover	2.5	2.2	2.4	2.4	
Debtors Days	47.3	61.0	61.0	61.0	
Creditors Days	44.2	42.0	42.0	42.0	
Solvency Ratios (x)					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.3	2.7	2.6	2.6	
Quick Ratio	1.1	1.4	1.4	1.4	

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	2,225	2,440	Buy	2,13,378	29.0	28.9	35.9	76.8	77.1	62.0	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTP)	1,127	1,120	Hold	16,980	16.6	15.0	23.3	68.0	75.4	48.4	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AM2)	1,197	2,600	Buy	6,909	52.2	19.0	70.6	42.1	115.9	31.1	22.8	33.1	15.2	14.3	6.3	16.2	14.5	4.2	13.7
Bajaj Electricals (BAJEL)	491	495	Buy	5,582	0.0	4.1	14.8	NM	119.9	33.3	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	630	580	Hold	61,186	6.8	6.1	9.7	93.3	102.8	64.7	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
EPL(ESSPRO)	244	270	Buy	7,698	6.7	7.0	9.5	36.4	34.8	25.7	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	725	630	Hold	45,233	11.7	8.0	14.4	61.7	90.4	50.3	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	511	510	Buy	27,539	9.9	7.9	11.8	51.4	64.4	43.2	30.3	35.3	24.2	17.6	14.7	19.9	14.1	11.3	15.3
Pidilite Industries (PIDINI)	1,590	1,595	Buy	80,740	22.1	17.8	28.0	72.0	89.1	56.9	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	909	1,040	Buy	13,533	51.4	58.1	62.9	17.7	15.6	14.5	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPINC)	1,473	1,695	Buy	18,711	36.8	44.9	47.8	40.0	32.8	30.8	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	857	960	Buy	5,995	26.0	20.5	32.0	32.9	41.7	26.8	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	37	47	Hold	837	7.5	3.4	9.4	4.9	10.9	4.0	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	168	210	Buy	7,195	4.3	3.7	5.3	38.9	45.6	31.6	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	702	725	Buy	23,218	15.8	10.7	22.7	44.6	65.7	30.9	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)



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