

Growth back on track...

V-Guard's performance in Q3FY21 was much ahead of our estimates mainly due to smart sales recovery followed by strong festive demand and market share gains from unorganised/regional players. The company also saw channel re-filling of key products ahead of peak season. According to the management, V-Guard will continue to focus on expanding its distribution network in non-south regions (~41% of revenue). Revenue of non-south regions posted phenomenal growth of 43% YoY, better than ~25% YoY revenue growth from south regions. Other than this, the company will also launch new products (initially under the stabilisers and digital UPS category) by leveraging technology benefit from its recent investment in battery startup 'Gegadyne Energy'. As on 9MFY21, its balance sheet remained strong with net cash position at ₹ 482 crore supported by robust cash flow from operation (CFO) of ₹ 369 crore during the same period. We believe the strong CFO was mainly due to improvement in working capital cycle (48 days in December 2020 vs. 53 days in December 2019). The company is also looking at inorganic opportunities into adjacent product categories where RoCE of business is not less than 20%. However, in case of non-materialisation of deal cash would be utilised as payout to shareholders.

Channel filling, strong festive demand drive topline

In Q3FY21, revenues at ₹ 835 crore, up 32% YoY, was led by similar growth in all three product categories (electronics, electricals, consumer durables) largely led by volume growth. The price hike was in the range of 3-5% across product categories. On the margin front, EBITDA margin expansion by ~413 bps YoY at 13.8% was due to rationalisation of advertisement expenditure and other costs during Q3FY21. Finally, PAT growth of 77% YoY to ~₹ 78 crore was a function of strong sales growth and margin expansion. The company has guided for a strong Q4FY21, which would help in a further recovery in sales for FY21 (9MFY32 sales recovery was at 95%).

Focus on strengthening product portfolio

The recent investment of ₹ 33 crore for ~18% stake in battery startup Gegadyne Energy is for its long term strategic plan to strengthen its existing product portfolio (initially UPS and stabilisers segment). Through enhancing product portfolio, the company would be increasing its share of premium products sales in overall sales in the next two to three years.

Valuation & Outlook

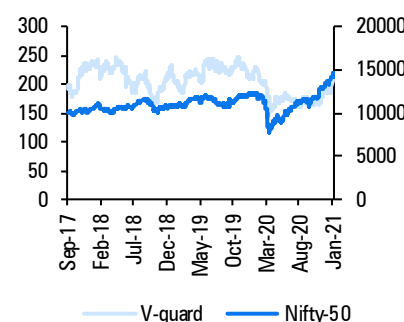
We tweak our revenue, earning estimates upward for FY23 by ~12%, ~14%, respectively, given a strong construction push by the government and market share gain will benefit organised players like V-Guard. We reiterate our **BUY** rating and revise our target price to ₹ 260 (earlier ₹ 210), valuing the company at 37x FY23E earnings.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	9,554.7
Total Debt (FY20) (₹ Crore)	12.8
Cash and Inv (FY20) (₹ Crore)	111.2
EV (₹ Crore)	9,456.2
52 week H/L	255 / 149
Equity capital (₹ Crore)	42.5
Face value (₹)	1.0

Price Performance



Key risk to our call

- Lower-than-expected topline growth on account of delay in summer season
- 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	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2594.0	2502.9	2590.4	3265.9	3720.1	14.1
EBITDA	224.3	258.0	273.2	366.0	428.6	18.4
EBITDA Margin (%)	8.6	10.3	10.5	11.2	11.5	
PAT	168.1	188.3	181.3	260.3	303.3	17.2
EPS (₹)	3.9	4.4	4.2	6.1	7.1	
P/E(x)	57.5	51.5	53.6	37.3	32.0	
Price /Book Value (x)	10.7	9.7	9.0	7.9	7.0	
EV/EBITDA (x)	42.3	36.8	34.8	26.2	22.4	
RoE (%)	18.7	18.9	16.8	21.1	21.9	
RoCE (%)	24.1	25.1	23.6	27.9	29.0	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comment
Revenue	835.0	678.0	631.9	32.1	720.1	16.0	Market share gain, restocking of inventory and a favourable base help drive strong growth during Q3
Other Income	5.6	6.3	5.8	-4.8	7.6	-26.8	
Raw Material Exp	558.7	454.3	419.0	33.3	482.5	15.8	Change in mix and delay in price hike resulting flattish gross margin YoY
Employee Exp	63.3	54.2	59.3	6.7	61.2	3.4	
Advertisement Exp	3.3	9.5	14.3	-76.7	14.4	-76.8	Advertisement & promotional expense remain low on a lean season
Other Exp	94.2	81.4	77.9	20.9	81.0	16.3	
EBITDA	115.5	78.6	61.4	88.3	81.0	42.6	
EBITDA Margin (%)	13.8	11.6	9.7	413 bps	11.3	258 bps	Strong operating leverage amid improved utilisation help drive margin
Depreciation	9.8	9.2	7.7	27.4	8.3	17.9	
Interest	1.2	1.2	1.1	12.3	1.6	-23.3	
PBT	110.1	74.5	58.5	88.4	78.8	39.8	
Total Tax	31.9	21.9	14.2	124.1	19.8	61.0	
PAT	78.3	52.6	44.2	76.9	59.0	32.7	Strong sales growth and margin expansion helped drive bottomline
Key Metrics							
Electronics	207.0	166.4	153.8	34.6	171.0	21.1	Low base and restocking of product like help drive segment growth
Electricals	363.0	284.3	276.1	31.5	288.6	25.8	Electrical segment recovery was led by wire and pump segment
Consumer Durable	264.0	227.3	202.0	30.7	163.0	62.0	Strong growth in pump and kitchen appliances help drive segment growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	%chg	Old	New	%chg	Old	New	%chg	
Revenue	2,360.4	2590.4	9.7	2,980.6	3265.9	9.6	3,327.3	3720.1	11.8	We tweak our estimate upward for FY22-FY23 considering new product launches, dealer additions and market share gains from unorganized segment
EBITDA	224.2	273.2	21.9	313.0	366.0	16.9	366.0	428.6	17.1	
EBITDA Mar %	9.5	10.5	105bps	10.5	11.2	71bps	11.0	11.5	52bps	
PAT	157.8	181.3	14.9	227.5	260.3	14.4	265.5	303.3	14.3	
EPS (₹)	3.7	4.2	14.9	5.3	6.1	14.4	6.2	7.1	14.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Electronics Growth	-0.7	-8.1	34.0	12.7	34.0	12.7	Strong demand for cooling product will help drive stabiliser sales, going forward
Electricals Growth	-6.7	-3.7	23.4	10.0	23.0	9.5	We believe recovery in construction activity would drive demand of wire, pump and new launches in switchgear segment
Cons. Durable Growth	-0.5	-3.2	23.2	13.7	23.2	13.7	Performance of consumer durable segment will be driven by low base of new products like water purifier, breakfast appliances, kitchen hobs and chimneys

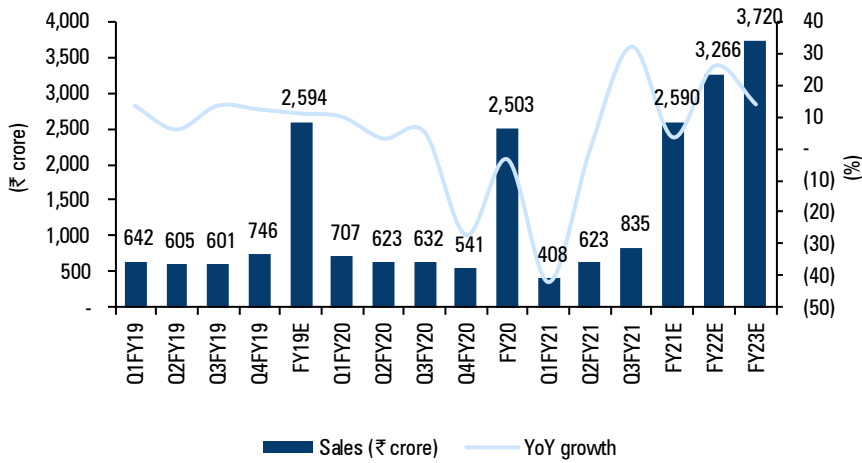
Source: Company, ICICI Direct Research

Conference call highlights

- Strategic investments in brand visibility, product development, distribution networks to drive future growth for V-Guard. The company expects ~15% sales growth, going forward
- Continuous market share gains from unorganised and regional players
- Expect strong growth in the kitchen hobs & chimneys and water purifier segment, going ahead
- 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 ~12-15% of its topline
- Price hike of ~4-7% in Q4FY21 will completely offset the higher raw material prices
- Retail touch points at 40,000 points of which 17000 are in the south and the rest are in non-south
- Expect EBITDA margin to improve ~1% supported by cost optimisation measures, improved plant utilisation and improving mix

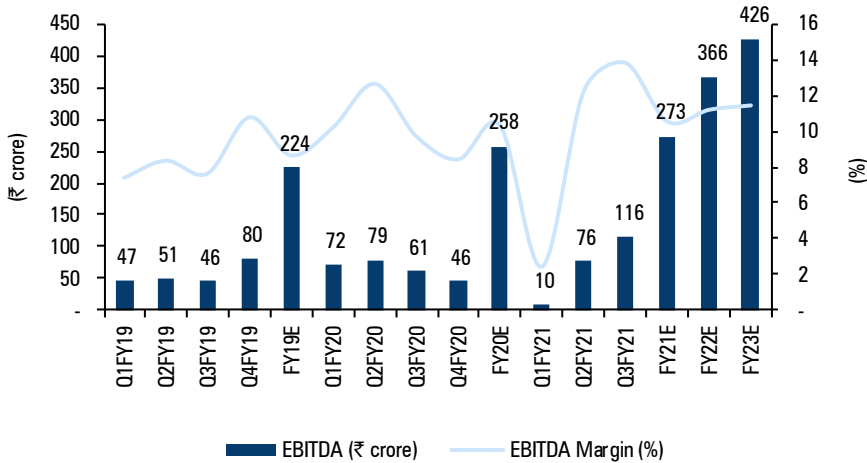
Financial story in charts

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



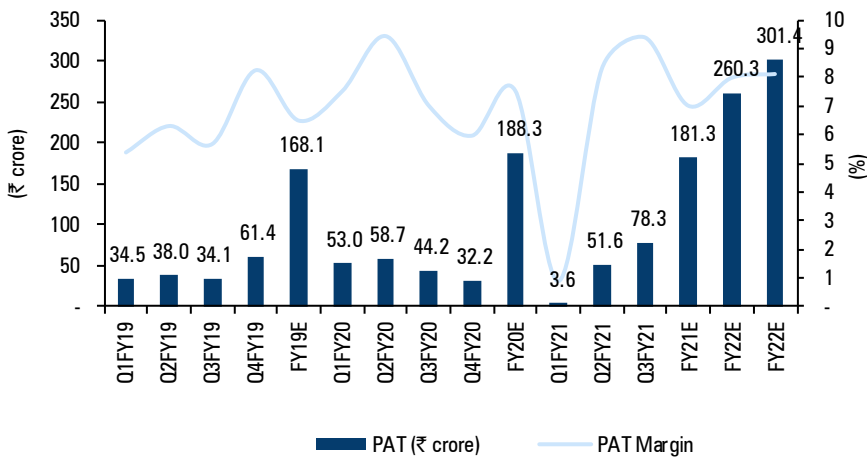
Source: Company, ICICI Direct Research

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	FY21E	FY22E	FY23E	
Net Sales	2502.9	2590.4	3265.9	3720.1	
Growth (%)	-3.5	3.5	26.1	13.9	
Expenses					
Raw Material Expenses	1661.8	1761.5	2204.5	2492.5	
stock					
Employee Expenses	208.8	233.1	261.3	297.6	
Administrative Expenses	317.6	302.1	361.7	409.2	
Total Operating Expenditure	2244.9	2317.2	2900.0	3294.2	
EBITDA	258.0	273.2	366.0	426.0	
Growth (%)	15.0	5.9	34.0	16.4	
Other Income					
Interest	4.2	4.9	6.7	8.3	
PBDT	279.0	291.9	392.1	455.0	
Depreciation	29.4	36.5	44.1	52.1	
PBT before Exceptional Items	249.6	255.3	348.1	402.9	
PBT	249.6	255.3	348.1	402.9	
Total Tax	61.3	74.0	87.7	101.5	
PAT	188.3	181.3	260.3	301.4	

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Equity Capital	42.8	42.8	42.8	42.8	
Reserve and Surplus	952.3	1033.4	1190.7	1337.5	
Total Shareholders funds	995.1	1076.3	1233.5	1380.3	
Total Debt	12.8	22.8	32.8	42.8	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Total Liability	1048.7	1139.9	1307.1	1463.9	
Assets					
Total Gross Block	461.7	587.6	647.6	717.6	
Less Total Accumulated Deprn	180.9	217.4	261.5	313.6	
Net Block	280.8	370.1	386.0	404.0	
Total Fixed Assets	347.7	381.1	397.0	415.0	
Inventory	479.0	638.7	644.2	733.8	
Debtors	324.3	298.1	420.5	499.4	
Loans and Advances	8.6	3.4	4.2	4.8	
Cash	111.2	106.5	43.0	28.9	
Total Current Assets	1027.9	1154.4	1247.9	1421.7	
Creditors	305.1	667.1	536.9	560.6	
Provisions	47.2	102.2	82.2	85.9	
Total Current Liabilities	405.9	824.2	688.3	725.3	
Net Current Assets	622.0	330.2	559.5	696.4	
Total Assets	1048.7	1139.9	1307.2	1463.9	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	188.3	181.3	260.3	301.4	
Depreciation	29.4	36.5	44.1	52.1	
Cash Flow before working capital ch	221.8	222.7	311.1	361.8	
Net Increase in Current Assets	6.7	-131.3	-157.0	-187.9	
Net Increase in Current Liabilities	-43.6	418.3	-135.9	37.0	
Net cash flow from operating act	185.0	509.8	18.3	210.8	
(Purchase)/Sale of Fixed Assets	-142.2	-70.0	-60.0	-70.0	
Net Cash flow from Investing act	-61.3	-419.5	18.0	-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	-46.2	-51.5	-103.1	-154.6	
Net Cash flow from Financing act	-97.8	-95.1	-99.7	-152.9	
Net Cash flow	25.8	-4.8	-63.5	-14.1	
Cash and Cash Equivalent at the beg.	85.5	111.2	106.5	43.0	
Cash	111.2	106.5	43.0	28.9	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per Share Data (₹)					
EPS	4.4	4.2	6.1	7.1	
Cash EPS	5.1	5.1	7.1	8.3	
BV	23.3	25.1	28.8	32.3	
DPS	1.1	1.2	2.4	3.6	
Operating Ratios (%)					
EBITDA Margin	10.3	10.5	11.2	11.5	
PAT Margin	7.5	7.0	8.0	8.2	
Return Ratios (%)					
RoE	18.9	16.8	21.1	21.9	
RoCE	25.1	23.6	27.9	29.0	
RoIC	28.9	39.9	35.7	35.1	
Valuation Ratios (x)					
EV / EBITDA	36.8	34.8	26.2	22.4	
P/E	51.5	53.6	37.3	32.0	
EV / Net Sales	3.8	3.7	2.9	2.6	
Market Cap / Sales	3.9	3.7	3.0	2.6	
Price to Book Value	9.7	9.0	7.9	7.0	
Turnover Ratios (x)					
Asset turnover	2.5	2.3	2.6	2.6	
Debtors Days	47.3	42.0	47.0	49.0	
Creditors Days	44.5	94.0	60.0	55.0	
Solvency Ratios (x)					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.3	1.3	1.8	1.9	
Quick Ratio	1.1	0.5	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)	2,456	3,010	Hold	2,35,530	32.8	39.9	46.3	74.8	61.5	53.0	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	2,024	2,225	Hold	30,494	22.2	30.4	37.1	91.1	66.5	54.6	54.8	42.8	35.7	23.9	28.1	29.3	18.3	21.8	22.5
Amber Enterprises (AMBEN)	3,232	3,015	Buy	10,164	29.8	68.2	97.6	108.3	47.4	33.1	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	1,098	1,075	Buy	12,483	18.9	25.4	35.2	NM	36.3	26.1	31.0	25.0	18.2	17.6	21.4	24.8	13.5	17.3	19.9
Berger Paints (BERPAI)	764	810	Hold	74,200	7.6	9.7	12.4	100.5	78.6	61.8	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	395	480	Buy	24,767	7.9	9.5	12.0	49.7	41.5	32.8	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
EPL (ESSPRO)	228	250	Hold	7,193	7.8	8.9	10.8	29.1	25.6	21.1	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,172	1,255	Hold	73,121	16.1	17.8	22.9	72.9	65.8	51.1	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	591	675	Buy	31,850	9.7	12.7	15.0	60.6	46.5	39.5	37.9	30.4	25.9	17.9	20.7	21.6	13.7	15.9	16.6
Pidilite Industries (PIDIND)	1,766	1,920	Buy	89,677	22.1	28.2	32.9	79.8	62.7	53.7	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9
Polycab India (POLI)	1,320	1,385	Buy	19,652	57.9	67.2	79.7	22.8	19.6	16.6	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	1,950	2,010	Buy	24,770	62.2	50.0	58.0	31.3	39.0	33.6	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9
Symphony (SYMLIM)	1,059	1,090	Hold	7,408	13.1	29.8	40.0	80.6	35.6	26.5	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7
Time Techno (TIMTEC)	52	58	Hold	1,176	4.4	9.4	-	11.8	5.5		4.9	3.4		8.4	13.4		5.5	11.0	
V-Guard Ind (VGUARD)	227	265	Buy	9,722	4.2	6.1	7.1	53.6	37.3	32.0	34.8	26.2	22.4	23.6	27.9	29.0	16.8	21.1	21.9
Voltas Ltd (VOLTAS)	1,058	1,260	Buy	34,992	15.7	25.8	32.1	67.3	40.9	33.0	58.5	35.6	28.4	16.3	22.6	24.2	11.4	16.8	17.9

Source: Company, ICICI Direct Research

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Sell: <-15%



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