

## “Sunflame’ to scale up V-Guard’s kitchen portfolio...

**Acquisition Details:** V-Guard has signed a definitive agreement to acquire 100% stake in Sunflame Enterprises (Sunflame) for a consideration of ₹ 660 crore, on a cash-free and debt-free basis. In the last 3 years, Sunflame’s revenue grew at 15% CAGR (higher than industry growth of ~10-12%) supported by new product launches and geographical expansions. It will finance this acquisition through a mix of debt and internal accruals (V-Guard had net cash of ~₹ 151 crore as on September 2022). With the offer price, Sunflame is valued at 1.9x FY22 sales and 20x FY22 earnings.

“Sunflame” is a leading kitchen appliance company with a strong presence in chimneys, cook tops, cookers and small appliances. The acquisition is in line with V-Guard’s strategy to strengthen its kitchen appliances portfolios where the company had a very limited presence. Post-acquisition, V-Guard’s kitchen appliances revenue contribution to its total revenue will increase to ~10% from 5% in FY22. We introduce FY25E estimates for V-Guard factoring in acquisition and better margin profile of ‘Sunflame’. We model consolidated revenue, earning CAGR of 17%, 18%, respectively, in FY22-25E.

### Key Conference call highlights:

- The Sunflame acquisition will provide significant synergies to V-Guard in areas like geography, product portfolio and channel. Sunflame is a dominant player in the non-south regions (with 80% revenue contribution)
- V-Guard will leverage its established distribution networks in the south region to scale up its kitchen product ranges (post Sunflame acquisition)
- The acquisition will be funded through a mix of debt and internal accruals. The company is likely to raise debt of ~₹ 400 crore. The management is aiming for consolidated RoCE to be >20% over the medium term

**Target Price and Valuation:** We roll over our valuation on FY25E and revise our rating on V-Guard from HOLD to **BUY**. We value the company at 35x FY25E earnings with a revised target price of ₹ 310/share.

### Key triggers for future price performance:

- Expansion in non-south regions (revenue contribution increased from 37% in FY18 to 41.7% in FY22) and government housing thrust (to build 1.3 crore new houses under PMAY) will be key growth drivers for V-Guard
- We believe expansion into high margin product categories (such as kitchen appliances) will lead to EBITDA margin expansion over FY22-25E
- 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 Havells in our coverage. BUY with a target price of ₹ 1565/ share

### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 Years CAGR (FY17-22)	FY23E	FY24E	FY25E	3 Years CAGR (FY22-25E)
Net Sales	2502.9	2721.2	3498.2	10.9	4186.1	5007.9	5643.5	17.3
EBITDA	258.0	312.1	338.2	10.1	352.5	503.6	618.3	22.3
EBITDA Margin (%)	10.3	11.5	9.7		8.4	10.1	11.0	
PAT	188.3	201.9	228.4	9.6	229.3	290.1	376.6	18.1
EPS (₹)	4.4	4.7	5.3		5.3	6.7	8.7	
P/E(x)	59.2	55.4	48.9		49.1	38.8	29.9	
Price /Book Value (x)	11.2	9.2	7.9		8.7	7.9	6.8	
EV/EBITDA (x)	42.8	35.0	32.9		31.7	23.1	18.7	
RoE (%)	18.9	16.7	16.2		17.7	20.3	22.8	
RoCE (%)	25.1	23.9	21.2		23.4	22.7	26.3	

Source: Company, ICICI Direct Research



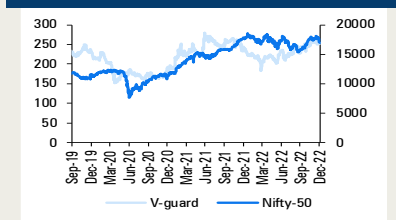
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	11,178.3
Total Debt (FY22) (₹ Crore)	11.8
Cash and Inv (FY22) (₹ Crore)	61.3
EV (₹ Crore)	11,128.8
52 week H/L	269 / 181
Equity capital (₹ Crore)	42.8
Face value (₹)	1.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	56.1	56.0	55.9	55.9	55.9
FII	14.3	14.3	12.7	12.4	12.9
DII	15.6	16.0	17.3	18.1	18.1
Others	14.0	13.8	14.1	13.6	13.1

### Price Chart



### Recent event & key risks

- **Key Risk:** (i) Revival in demand of its electronic products segment (ii) Higher advertisement cost

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## Conference call highlights

- V-Guard will be acquiring a 100% stake in Sunflame Enterprises for a consideration of ₹ 660 crore on a cash-free, debt-free basis. The company expects the transaction to get closed by mid-January 2023 and is likely to significantly expand the company's presence in the kitchen appliances segment. The acquisition will be funded through a mix of internal accruals and debt
- The company is planning to raise ~₹ 400 crore in debt to fund the acquisition. The balance will be funded through internal accruals. V-Guard is currently negotiating the cost of debt and has not yet tied up with any institution for raising this amount
- Sunflame derives 80% of its revenue from non-south regions and has a strong cash flow. The company has a strong presence in the north and west regions of India. It does not offer credit to its distributors
- According to the management, Sunflame's growth rate will be strong owing to its brand awareness and presence. However, Sunflame's distribution channel and presence in e-commerce and modern trade needs to be strengthened
- Sunflame has ~15,000 retail touchpoints in India
- All types of cooktops and chimneys contribute ~60-70% to Sunflame's revenue
- Sunflame saw higher revenue growth of ~33% YoY in FY22 led by pent up demand and favourable base of Covid impacted FY21. Sunflame reported EBITDA margin of ~12% in FY22, better than V-Guard's EBITDA margin of 9.7%
- Sunflame derives ~90% of sales through offline distributions. The business presence in the e-commerce and modern-trade channel is comparatively lower
- The company has recently set up a factory in Faridabad to mainly manufacture chimneys. Chimney hoods are generally imported from China and other countries. Sunflame has started manufacturing chimneys at its factory. It manufactures ~65-70% of its product offerings in-house
- V-Guard intends to keep the Sunflame brand separate. V-Guard's investment in Sunflame is mainly towards Sunflame's brand strength and awareness. Sunflame will continue to operate as an independent platform. The company sees a huge opportunity to grow Sunflame in south India
- Currently, the company is not planning to integrate Sunflame with V-Guard's kitchen appliances business
- Sunflame has 300-350 employees. V-Guard plans to retain all the employees
- According to the management, the acquisition will be EPS accretive from the second year post acquisition and will be neutral in the first year
- Sunflame's ad spend is ~5-6% of its revenue
- Sunflame has adequate manufacturing capacity to meet its growth objective for the next three to four years

Exhibit 1: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	%chg	Old	New	%chg	Introduced	
Revenue	4,186.1	4186.1	-	4603.8	5007.9	8.8	5643.5	We revise our revenue estimates upward for FY24E factoring in revenue growth in kitchen appliances segment post acquisition of Sunflame Enterprises. We
EBITDA	352.5	352.5	-	464.4	503.6	8.4	618.3	
EBITDA Mar %	8.4	8.4	0bps	10.1	10.1	-3bps	11.0	V-Guard's entry into high margin business and better operating leverage will help in driving its EBITDA margin upwards by 129 bps over FY22-25E
PAT	229.3	229.3	-	306.3	290.1	(5.3)	376.6	
EPS (₹)	5.3	5.3	-	7.1	6.7	(5.3)	8.7	

Source: ICICI Direct Research

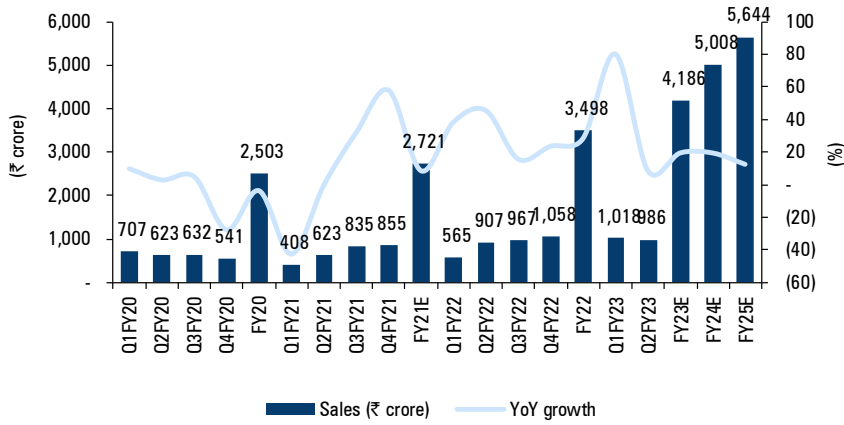
We believe the acquisition of Sunflame is in line with V-Guard's strategy to expand its domestic kitchen appliances segment and dealer reach into new geographies. The Sunflame brand has a pan-India presence with a strong brand recall. Sunflame's wide portfolio, product development capabilities and the recently established backward integrated manufacturing facility provide the perfect opportunity for V-Guard to scale up its kitchen appliances business by leveraging established distribution networks.

On the margin front, Sunflame's EBITDA margin at 11.5% is higher than V-Guard's 9.7%, mainly due to the better gross margin profile of Sunflame. We believe entering into high margin product business and positive operating leverage will drive V-Guard EBITDA margin higher by ~130 bps over FY22-25E. We believe there will be a debt burden on the books of V-Guard in the near term but the same would start easing from FY25 onwards with strong operating cashflow and no major capex plans over the next two years.

The acquisition will not only diversify V-Guard into new product segments but also help unlock synergy benefits. We believe the acquisition will be EPS accretive from FY25 onwards. We build in EBITDA margin of 10.1% and 11% for FY24E and FY25E, respectively. PAT is likely to grow at CAGR of ~18% in FY22-25E tracking higher sales growth and recovery in EBITDA margin post acquisition of the Sunflame business. We roll over our valuation on FY25E and revise our rating on V-Guard from HOLD to BUY. We value the company at 35x FY25E earnings with a revised target price of ₹ 310/share.

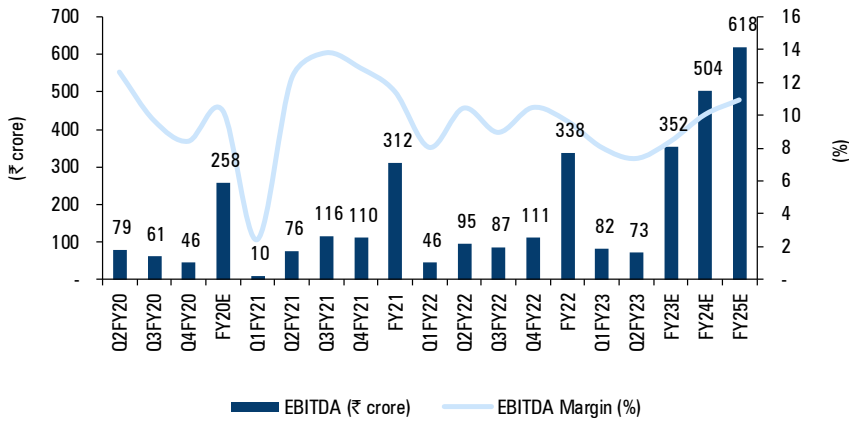
### Financial story in charts

Exhibit 2: Revenue growth trend



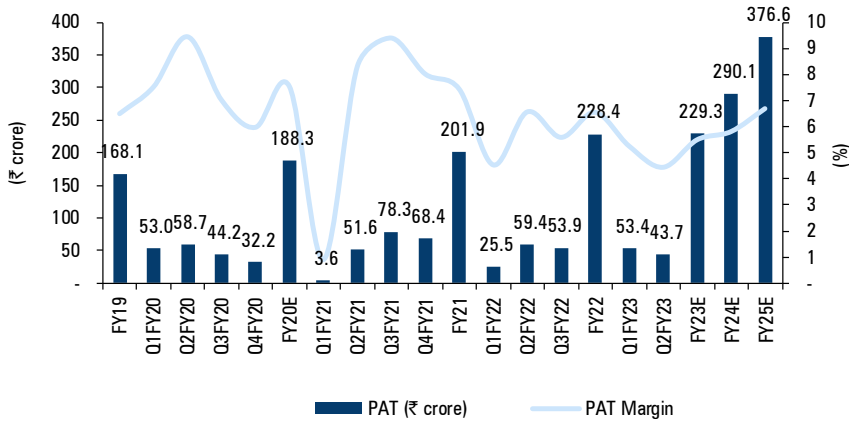
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 4: PAT movement



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Net Sales	3498.2	4186.1	5007.9	5643.5
Growth (%)	28.6	19.7	19.6	12.7
Expenses				
Raw Material Expenses	2413.9	2909.3	3375.3	3792.5
Employee Expenses	270.0	326.5	380.6	412.0
Administrative Expenses	424.0	502.3	626.0	682.9
Total Operating Expenditure	3160.0	3833.6	4504.3	5025.2
EBITDA	338.2	352.5	503.6	618.3
Growth (%)	8.4	4.2	42.9	22.8
Other Income	12.8	16.6	6.3	7.1
Interest	7.9	3.0	44.4	34.5
PBDT	343.1	366.0	465.5	590.9
Depreciation	49.1	59.4	77.6	87.5
PBT before Exceptional Items	294.0	306.6	387.8	503.4
PBT	294.0	306.6	387.8	503.4
Total Tax	65.5	77.3	97.7	126.9
PAT	228.4	229.3	290.1	376.6

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	43.2	43.2	43.2	43.2
Reserve and Surplus	1363.8	1253.1	1387.4	1608.1
Total Shareholders funds	1407.0	1296.2	1430.5	1651.3
Total Debt	11.8	21.8	471.8	391.8
Deferred Tax Liability	0.0	0.0	0.0	0.0
Total Liability	1315.6	1478.6	1377.9	1962.3
Assets				
Total Gross Block	734.0	804.0	891.0	961.0
Less Total Accumulated Depreci	268.7	328.1	405.8	493.2
Net Block	465.3	475.8	485.2	467.7
Total Fixed Assets	476.3	486.8	496.2	478.7
Inventory	859.6	860.2	1056.5	1206.0
Debtors	484.1	573.4	727.2	819.5
Loans and Advances	3.2	5.4	6.5	7.3
Cash	61.3	19.0	31.4	34.0
Total Current Assets	1521.6	1593.7	1961.7	2224.8
Creditors	488.0	630.8	768.3	850.4
Provisions	61.9	80.0	97.4	107.8
Total Current Liabilities	618.0	792.4	963.4	1068.2
Net Current Assets	903.6	801.4	998.4	1156.6
Total Assets	1315.6	1478.6	1377.9	1962.2

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	228.4	229.3	290.1	376.6
Depreciation	49.1	59.4	77.6	87.5
Cash Flow before working capital ch	285.5	291.8	412.1	498.6
Net Increase in Current Assets	-338.4	-114.4	-355.6	-260.5
Net Increase in Current Liabilities	58.8	174.3	171.0	104.9
Net cash flow from operating act	5.9	351.7	227.6	342.9
(Purchase)/Sale of Fixed Assets	-139.8	-70.0	-87.0	-70.0
Net Cash flow from Investing act	-184.1	-60.9	-464.9	-70.0
Inc / (Dec) in Equity Capital	0.3	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	-103.1	-155.8	-155.8	-155.8
Net Cash flow from Financing act	-41.7	-333.1	249.8	-270.3
Net Cash flow	-219.9	-42.3	12.4	2.6
Cash and Cash Equivalent at the beg.	281.2	61.3	19.0	31.4
Cash	61.3	19.0	31.4	34.0

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per Share Data (₹)				
EPS	5.3	5.3	6.7	8.7
Cash EPS	6.5	6.7	8.5	10.8
BV	32.9	30.0	33.1	38.3
DPS	2.4	3.6	3.6	3.6
Operating Ratios (%)				
EBITDA Margin	9.7	8.4	10.1	11.0
PAT Margin	6.5	5.5	5.8	6.7
Return Ratios (%)				
RoE	16.2	17.7	20.3	22.8
RoCE	21.2	23.4	22.7	26.3
RoIC	21.6	22.7	29.3	33.4
Valuation Ratios (x)				
EV / EBITDA	32.9	31.7	23.1	18.7
P/E	48.9	49.1	38.8	29.9
EV / Net Sales	3.2	2.7	2.3	2.0
Market Cap / Sales	3.2	2.7	2.2	2.0
Price to Book Value	7.9	8.7	7.9	6.8
Turnover Ratios (x)				
Asset turnover	2.5	3.2	2.6	2.8
Debtors Days	50.5	50.0	53.0	53.0
Creditors Days	50.9	55.0	56.0	55.0
Solvency Ratios (x)				
Debt / Equity	0.0	0.0	0.3	0.2
Current Ratio	2.4	2.0	2.0	2.1
Quick Ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 9: ICICI Direct Consumer Discretionary universe

Sector / Company	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	3,01,414	33.4	32.2	40.8	54.2	94.0	97.7	77.0	58.0	61.1	62.2	51.2	39.4	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1
Berger Paints (BERPAI)	Hold	59,832	7.4	8.6	10.3	12.2	83.1	71.8	59.9	50.5	50.1	45.2	37.7	32.5	24.9	23.3	28.8	30.9	21.3	21.2	26.0	27.3
Kansai Nerolac (KANNER)	Hold	23,766	9.8	6.9	10.1	12.9	44.8	63.5	43.6	34.1	28.2	36.6	26.5	21.1	17.2	12.1	17.0	19.9	13.2	9.2	13.1	15.1
Pidilite Industries (PIDIND)	Hold	1,38,934	22.2	23.8	28.6	41.2	123.4	115.1	95.5	66.4	82.4	75.1	63.5	45.2	23.8	22.2	24.6	30.8	20.2	18.8	20.6	25.4
Sheela Foam (SHEFOA)	Buy	12,878	48.7	44.5	51.1	66.6	54.2	59.3	51.7	39.6	35.7	41.5	35.6	27.4	24.3	18.0	19.6	23.2	20.1	15.6	16.3	19.0
Bajaj Electricals (BAJELE)	Hold	12,588	16.5	10.8	23.2	36.4	66.4	101.2	47.2	30.1	42.3	49.9	31.0	22.1	15.1	13.5	22.1	27.3	10.7	7.8	15.7	20.2
Crompton Greaves(CROGR)	Hold	22,063	9.8	9.2	8.9	11.1	35.8	38.1	39.5	31.7	29.1	28.8	25.4	21.1	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4
Havells India (HAVIND)	Buy	73,027	16.7	19.1	17.6	27.1	70.0	61.1	66.1	43.1	45.9	40.3	44.0	30.0	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7
Polycab India (POLI)	Buy	42,173	59.3	61.4	76.3	86.8	47.6	46.0	37.0	32.5	37.1	32.5	23.7	21.0	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0
Symphony (SYMLIM)	Hold	6,520	15.3	17.3	26.1	34.8	60.9	53.9	35.7	26.8	45.6	39.4	27.4	20.7	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Buy	11,135	4.7	5.3	5.3	6.7	55.2	48.7	48.9	38.7	34.8	32.8	31.6	23.0	23.9	21.2	23.4	22.7	16.7	16.2	17.7	20.3
Voltas Ltd (VOLTAS)	Hold	27,782	16.0	15.3	16.1	23.0	52.5	54.9	52.0	36.5	42.6	39.8	39.1	27.8	15.0	14.0	16.3	20.1	10.6	9.2	11.0	14.1
Amber Enterprises (AMBEN)	Hold	6,779	24.7	33.0	45.7	73.7	81.4	60.9	44.0	27.3	30.6	25.9	20.4	15.1	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3
Dixon Technologies (DIXTEC)	Buy	25,924	27.3	32.1	57.9	85.4	160.2	136.2	75.4	51.2	90.5	68.8	42.4	30.9	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2
Supreme Indus (SUPIND)	Buy	31,566	77.0	76.2	63.1	80.4	32.3	32.6	39.4	30.9	24.0	25.0	27.2	21.1	33.1	25.9	22.6	27.1	30.9	25.2	20.5	23.6
Astral Ltd (ASTPOL)	Hold	40,618	20.3	24.4	23.1	37.1	99.5	82.8	87.4	54.4	62.4	53.0	50.7	35.5	27.5	26.6	24.2	30.4	21.5	21.0	18.0	24.1
Time Techno (TIMTEC)	BUY	2,194	4.8	8.5	9.8	13.2	20.3	11.4	9.9	7.4	7.2	5.8	5.1	4.2	8.7	11.3	12.5	14.7	5.7	9.3	10.4	12.6
Moldtek Packaging (MOLPLA)	Hold	2,993	17.2	20.4	26.7	34.4	52.4	44.2	33.8	26.2	32.6	25.1	20.1	15.9	20.1	18.6	27.6	27.9	18.7	13.9	24.3	24.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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