

Retail Equity Research

V-Guard Industries Ltd.

Electrical Equipment

BSE CODE : 532953 NSE CODE: VGUARD
 BLOOMBERG CODE: VGRD:IN SENSEX : 65,433

Accumulate

12 Months Investment Period Rating as per Small Cap
CMP Rs. 311 TARGET Rs. 363 RETURN 17% ↑
 (Closing: 23-08-2023)

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Margins profile to improve...

V-Guard Industries Ltd. (VGIL) is one of the leading players in the electrical consumer durables space. Major product segments include Stabilizers, Cables & Wires, UPS, Pumps and Electrical Appliances.

- In Q1FY24, revenue and profitability were up by 19% & 20% YoY, respectively, due to stable growth across segments and a 5% revenue contribution from Sun Flame (recent acquisition).
- EBITDA increased by 27% YoY & margins expanded by 50bps YoY to 8.6%, supported by gross margin expansion.
- Looking ahead, a stable inventory and softer raw material prices are anticipated to support an improvement in margin, while the festive season will drive topline in H2FY24E.
- We remain positive on the stock on account of its increasing share of own manufacturing, expanding product portfolio, growth momentum in consumer durables, and further scale-up in the non-south market.
- We value VGIL at a P/E of 42x on FY25E, and given the strong earnings outlook and healthy balance sheet, we maintain an Accumulate rating with a target price of Rs.363.

Core portfolio revenue growth remained stable

VGIL's Q1FY24 revenue grew by 19% YoY, led by stable performance in its core portfolio and a healthy contribution from the Sun Flame business (recently acquired). Revenue growth was broad-based, led by the consumer electronics segment, which grew by 20% YoY. The electrical and consumer durable segments grew by 12% & 11% YoY, respectively. Fans continued to witness softness due to the issue with the change in BEE ratings. Revenue growth from Sun Flame was lower than expected due to stress in the kitchen market. Revenue growth from the south & non-south markets grew by 10% & 17% YoY, respectively. Management aim is to increase the share of manufacturing, add new products, and expand its non-south markets. Going ahead, we expect H2FY24 growth to remain healthy on account of festive and summer related demand. We expect revenue to grow by a 17% CAGR over FY23-25E.

EBITDA margin to improve...ad spends to increase

EBITDA and PAT increased by 28% and 20%, respectively, in Q1FY24. The gross margin improved by 250bps YoY to 32.5%; however, improvement in EBITDA margins was limited to 50bps YoY to 8.6%. This was on account of increases in other expenses and employee costs, which increased by 29% & 32% YoY. The increase in other expenses was due to an increase in ad spending. Going ahead, with festive and stable inventory in the channel, we expect revenue growth momentum to pick up. While an ease in copper prices will support a gradual improvement in margin. However, given the likely increase in ad spends, we expect only a gradual improvement in margin. We expect PAT to grow at a healthy 39% CAGR over FY23-25E.

Valuations

VGIL's long term outlook is improving, given its strong product portfolio, expansion in non-south markets, strong cash flow and healthy balance sheet. While an ease in RM prices will support margin expansion. The earnings outlook remains healthy, at 17% CAGR. We value VGIL at a P/E of 42x on FY25E EPS and maintain Accumulate rating with a target price of Rs. 363.

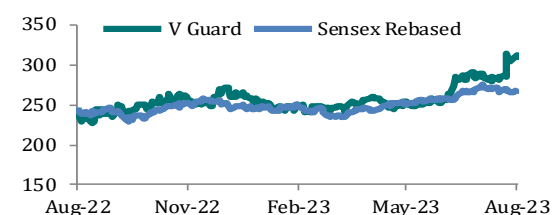
Company Data

Market Cap (cr)	Rs.13,485
Enterprise Value (cr)	Rs.13,938
Outstanding Shares (cr)	43.2
Free Float	44.4%
Dividend Yield	0.42%
52 week high	Rs.335
52 week low	Rs.225
6m average volume (cr)	0.04
Beta	0.78
Face value	Rs. 1.0

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24
Promoters	55.9	55.8	55.6
FII's	12.9	12.8	12.8
MFs/Institutions	18.9	19.1	19.4
Public	12.2	12.2	12.1
Others	0.1	0.1	0.1
Total	100.0	100.0	100.0
Promoter's Pledge	0.0	0.0	0.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	23.1%	24.6%	24.6%
Absolute Sensex	4.8%	7.0%	7.7%
Relative Return*	18.3%	17.5%	17.0%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	4,126	4,894	5,638
Growth (%)	18.0	18.6	15.2
EBITDA	320	470	581
EBITDA Margin(%)	7.8	9.6	10.3
Adjusted PAT	189	288	375
Growth (%)	(17.5)	52.5	30.0
Adjusted EPS	4.4	6.7	8.6
Growth (%)	(17.5)	52.5	30.0
P/E	71.1	46.8	36.0
P/B	8.4	7.3	6.2
EV/EBITDA	43.6	29.6	23.7
ROE (%)	12.5	16.7	18.8
D/E	0.3	0.2	0.1

Anil R
 Research Analyst

Quarterly Financials

Profit & Loss

	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Sales	1,215	1,018	19.3	1,140	6.5
EBITDA	105	82	27.4	99	6.2
EBITDA margins	8.6	8.1	50bps	8.7	(10bps)
Depreciation	20	14	44.5	19	3.8
EBIT	85	68	24.3	80	6.8
Interest	11	2	504.0	10	6.8
Other Income	12	5	130.5	3	348.0
Exceptional Items	-	-	-	-	-
PBT	86	72	20.0	72	19.2
Tax	22	18	18.6	19	12.1
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	64	53	20.3	53	21.8
Adjustments	-	-	-	-	-
Adjusted PAT	64	53	20.3	53	21.8
No. of Shares	42.7	42.7	-	42.7	-
EPS (Rs)	1.5	1.3	20.3	1.2	21.8

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Sales	2,721	3,500	4,126	4,894	5,638
% change	8.7	28.6	17.9	18.6	15.2
EBITDA	312	340	320	470	581
% change	21.0	9.0	-6.0	46.9	23.6
Depreciation	39	49	64	75	84
EBIT	273	291	255	394	497
Interest	6	8	16	30	21
Other Income	21	11	16	20	24
Share of profit	-	-	-	-	-
PBT	288	294	256	384	500
% change	15.4	2.0	-13.0	50.3	30.0
Tax	86	63	62	94	114
Tax Rate (%)	29.1	24.0	15.7	15.0	15.0
Reported PAT	202	228	189	288	375
Adj.*	-	-	-	-	-
Adj. PAT	202	228	189	288	375
% change	7.6	13.1	-17.2	52.5	30.0
No. of shares (cr)	42.8	43.1	43.2	43.4	43.4
Adj EPS (Rs)	4.7	5.3	4.4	6.7	8.6
% change	7.2	12.5	-17.5	52.1	30.0
DPS (Rs)	0.0	1.2	1.3	1.3	1.3
CEPS (Rs)	5.6	6.4	5.9	8.4	10.6

BALANCE SHEET

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	281	61	40	32	53
Accounts Receivable	388	484	569	670	772
Inventories	632	860	767	875	1,007
Other Cur. Assets	148	180	215	231	250
Investments	34	34	35	35	35
Gross Fixed Assets	463	609	779	879	979
Net Fixed Assets	358	451	567	591	608
CWIP	20	9	24	25	30
Intangible Assets	12	20	682	682	682
Def. Tax (Net)	4	9	(95)	(57)	(7)
Other Assets	-	(0)	0	0	0
Total Assets	1,875	2,107	2,804	3,085	3,431
Current Liabilities	537	558	590	691	795
Provisions	55	62	78	86	99
Debt Funds	68	74	528	468	378
Minor interest	5	5	-	-	-
Equity Capital	43	43	43	43	43
Reserves & Surplus	1,168	1,364	1,564	1,797	2,116
Shareholder's Fund	1,211	1,407	1,608	1,840	2,159
Total Liabilities	1,875	2,107	2,804	3,085	3,431
BVPS	28	33	37	42	50

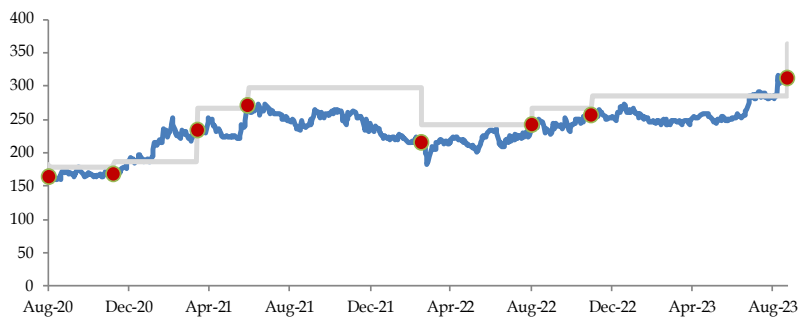
CASH FLOW

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	241	278	253	364	459
Non-cash adj.	23	4	29	(29)	(53)
Changes in W.C	(41)	(318)	141	(116)	(136)
C.F. Operation	222	(37)	424	220	270
Capital exp.	(65)	(124)	(101)	(101)	(105)
Change in inv.	106	4	(670)	20	24
Other invest.CF	-	-	-	-	-
C.F - Investment	41	(121)	(771)	(81)	(81)
Issue of equity	5	5	2	-	-
Issue/repay debt	(10)	(15)	380	(90)	(111)
Dividends paid	(0)	(52)	(56)	(56)	(56)
Other finance.CF	-	-	-	-	-
C.F - Finance	(6)	(62)	326	(146)	(167)
Chg. in cash	257	(220)	(21)	(8)	21
Closing cash	281	61	40	32	53

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab & Return					
EBITDA margin (%)	11.5	9.7	7.8	9.6	10.3
EBIT margin (%)	10.0	8.3	6.2	8.1	8.8
Net profit mgn.(%)	7.4	6.5	4.6	5.9	6.7
ROE (%)	18.3	17.5	12.5	16.7	18.8
ROCE (%)	17.9	17.1	11.3	14.3	16.3
W.C & Liquidity					
Receivables (days)	47.8	45.5	46.6	46.2	46.7
Inventory (days)	109.4	112.7	102.9	89.2	88.8
Payables (days)	88.2	82.8	72.7	69.5	70.1
Current ratio (x)	2.3	3.4	2.6	2.3	2.5
Quick ratio (x)	1.2	1.0	1.0	1.0	1.0
Turnover & Leverage					
Gross asset T.O (x)	8.9	8.7	7.7	7.1	6.8
Total asset T.O (x)	1.6	1.8	1.7	1.7	1.7
Int. covge. ratio (x)	44.8	36.9	15.8	13.2	23.5
Adj. debt/equity (x)	-0.1	0.0	0.3	0.2	0.1
Valuation					
EV/Sales (x)	4.9	3.8	3.4	2.8	2.4
EV/EBITDA (x)	42.4	39.6	43.6	29.6	23.7
P/E (x)	66.0	58.7	71.1	46.8	36.0
P/BV (x)	11.0	9.5	8.4	7.3	6.2

Recommendation summary (Last 3 Years)



Dates	Rating	Target
03-August-20	Accumulate	179
09-November-20	Accumulate	186
31-May-21	Accumulate	297
16-February-22	Accumulate	243
03-August-22	Accumulate	266
01-November-22	Accumulate	286
24-August-23	Accumulate	363

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated /Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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