



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

## Company details

Market cap:	Rs. 19,654 cr
52-week high/low:	Rs. 527/276
NSE volume: (No of shares)	3.13 lakh
BSE code:	532953
NSE code:	VGUARD
Free float: (No of shares)	19.8 cr

## Shareholding (%)

Promoters	54.6
FII	13.7
DII	19.7
Others	12.0

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	7.0	31.9	53.8	60.9
Relative to Sensex	2.8	22.5	38.8	38.3

Sharekhan Research, Bloomberg

## V-Guard Industries Ltd

## Strong Q1; High earnings growth trajectory intact

## Capital Goods

## Sharekhan code: VGUARD

## Reco/View: Buy



CMP: Rs. 452

Price Target: Rs. 528



Upgrade



Maintain



Downgrade

## Summary

- Standalone net profit grew by 55% y-o-y, aided by a 23.2% y-o-y revenue growth and a 130 bps y-o-y rise in OPM. Gross margin improved by 220 bps y-o-y.
- Management expects sustained demand momentum to aid higher revenue growth in FY2025 with a focus on reverting to 10-10.5% EBITDA margin.
- One-fourth of loan related to acquisition of Sunflame has been repaid and management expects to fully repay associated loans by Q1 FY26.
- In-house manufacturing is expected to increase to 75% over the next 12-18 months from 65% currently.
- We retain a Buy rating with a revised PT of Rs. 530, increasing our valuation multiple, given its strong earnings growth trajectory over the next two years.

V-Guard Industries (V-Guard) reported strong standalone revenue growth of 23.2% y-o-y at Rs. 1,414 crore, aided by healthy growth across (Electronics/Consumer Durables/Electricals Segments that reported a 41%/26%/7% y-o-y revenue growth), led by strong demand for summer products. Sunflame reported 7.1% y-o-y revenue decline to Rs. 59 crore. Standalone gross margins/OPM rose 220 bps/130 bps y-o-y to 32.7%/9.0%, benefitting from lower Raw-material cost led by softening of commodity prices and cost-effective initiatives (In-house manufacturing, premiumization etc.) undertaken by the company. Consequently, standalone operating profit/net profit increased 44.9%/54.7% y-o-y to Rs. 128 crore/Rs. 82 crore. Management expects demand momentum to continue in the coming quarters for FY2025, with EBITDA margins expected to revert to 10-10.5%. The recently commissioned battery and kitchen appliance factories are expected to deliver benefits in FY2025. With new facilities coming online, in-house manufacturing is expected to go about 75% over the next 12-18 months from 65%, which would partly support gross margins and help become more competitive in the market.

## Key positives

- Electronics segment grew by 41% driven by AC stabilisers, inverters and digital UPS. EBIT margins also improved on the back of lower commodity prices.
- Consumer durables reported strong 26% y-o-y revenue growth, driven by fans and air coolers. Overall, standalone gross margins improved 220 bps y-o-y to 32.7%.
- Southern markets grew 17.3% y-o-y whereas non-south markets out-spaced the southern markets and grew 29.5% owing to strong demand of summer products.

## Key negatives

- Electricals segment just grew by 7%, on destocking of wires due to softening of copper prices.
- Sunflame revenues were down by 7% with a decline in margins due to higher Advertisement and promotion expenses. Recovery is likely in the festive season.
- Copper prices have started to move up since December 2023 – This would impact margins of fans and pumps. The management plans to undertake price hikes in the coming quarters.

## Management Commentary

- As per management, strong demand for summer products have led the robust performance in the current quarter. A similar fashion of growth is expected from Electronics and consumer durables segments across 2025. The company expects to revert to EBITDA margin of 10-10.5% on account of pricing actions across some of its summer products (1% in Q125 and 2% in Q424).
- Company is in the process of setting up its factory for TPW fans for making premium TPW fans in Hyderabad, which is expected to be completed in the next 18 months.
- The company is in the process of operationally integrating Sunflame in 12-15 months. Sunflame would leverage the company's presence in South India and the e-commerce channel.

**Revision in estimates** – We have fine-tuned our estimates for FY2025-FY2026E.

## Our Call

**Maintain Buy with a revised PT of Rs. 528:** V-Guard is on the cusp of a high-growth trajectory, as it is deploying multiple levers for the next level of growth. We are also positive about its acquisition of Sunflame, as it would help the company expand its presence in the fast-growing kitchen appliances segment. The acquisition has a huge potential as V-Guard can leverage on Sunflame's strong presence in traditional channels and scale up its own presence in modern trade and e-commerce platforms. We expect Revenue/PAT CAGR of ~18%/~26% over FY2024-FY2026E EPS. Hence, we retain a Buy recommendation on V-Guard with a revised price target (PT) of Rs. 528, increasing our valuation multiple considering its strong earnings growth trajectory over the next two years.

## Key Risks

A relatively weak demand environment in some of the product categories may affect earnings.

## Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E
Net sales	4,051	4,559	5,446	6,361
OPM (%)	7.4	7.8	9.7	10.5
Net profit	180	231	320	420
Adjusted EPS (Rs.)	4.2	5.3	7.4	9.7
Y-o-Y growth (%)	(20.8)	28.6	38.7	31.1
P/E	89.0	69.2	49.9	38.0
P/B	10.1	9.1	7.9	6.6
EV/EBITDA	49.1	38.0	28.4	22.2
RoCE (%)	15.1	16.6	21.2	23.7
RoNW (%)	12.0	13.8	16.8	18.8

Source: Company; Sharekhan estimates

## Q1FY2025 Concall Highlights

- ♦ **Outlook:** As per the management, the strong demand of summer-led products has led the robust performance in the quarter. Management expects the growth in similar fashion from Electronics and Consumer Durables segment for FY25. The company expects to revert to EBITDA margin of 10-10.5% on account of pricing actions across some of its summer products (2% in Q4 and 1% in Q1FY25) apart from other initiatives.
- ♦ **Fans:** The company had a very strong growth in fans in Q1FY2025, while it had launched a premium BLDC segment in the range of Rs. 5,000 (consumer pricing), which did extremely well.
- ♦ **Pricing action:** The company has undertaken price hike of 2% in Q4 and 1% in Q1 to offset rising commodity prices.
- ♦ **TPW fans:** TPW fans are roughly 25-30% of the entire fan industry. The company is in the process of setting up its factory for TPW for making premium TPW fans in Hyderabad, which is expected to be completed in the next 18 months.
- ♦ **Sunflame acquisition:** The company is in the process of operationally integrating Sunflame, which is expected to take 12-15 months. Sunflame would leverage the company's presence in South and e-commerce. Presently, V-Guard has its factory at Vapi and Sunflame has its facility in NCR. Going ahead, opportunities of cross sourcing can arise. Sunflame had set up a hoods line before the merger, which has been scaled up and will be an important margin driver for Sunflame (7-10% advantage of in-house manufacturing versus outsourcing or importing from China).
- ♦ **Electronics:** The segment had a surprising growth of 41% led by product Digital UPS in the segment. Other products Stabilisers and inverter battery also had shown a reasonable growth. The management expects the Electronics segment to post the similar growth for FY25.
- ♦ **Electricals:** Segment was impacted by destocking in the wires segment led by increasing commodity prices.
- ♦ **Raw-material prices:** Copper prices have started to move up since December 2023, which is expected to impact margins in fans and pumps. The same positively impacts the wires segment, as retailers up-stock wires as copper prices rise. Although the situation is evolving, it has already seen some pricing actions in fans and pumps.
- ♦ **Capex:** Capex for FY2025 is estimated at Rs. 100 crore.
- ♦ **In-house manufacturing:** Currently, own manufacturing is at 65%, which was about 45% five years ago. With new factories coming online, in-house manufacturing is expected to go about 75% over the next 12-18 months.
- ♦ **South vs. Non-South markets:** The Non-South business grew faster, by 30% contributing 51% of Q125 revenues, whereas South markets grew by 17%.

### Results (Standalone )

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>Net Sales</b>	<b>1,414</b>	<b>1,148</b>	<b>23.2</b>	<b>1,262</b>	<b>12.0</b>
<b>Operating Profit</b>	<b>128</b>	<b>88</b>	<b>44.9</b>	<b>100</b>	<b>28.0</b>
Other income	7	11	(36.4)	25	72.0
Interest	8	11	(27.3)	9	(11.1)
Depreciation	16	16	--	17	(5.9)
<b>PBT</b>	<b>111</b>	<b>72</b>	<b>54.2</b>	<b>99</b>	<b>12.1</b>
Tax	28	19	47.4	20	40.0
Adj. PAT	82	53	54.7	79	3.8
<b>Reported PAT</b>	<b>82</b>	<b>53</b>	<b>54.7</b>	<b>79</b>	<b>3.8</b>
Adj. EPS (Rs.)	1.9	1.2	58.3	1.8	5.6
<b>Margin (%)</b>			<b>Bps</b>		<b>bps</b>
OPM (%)	9.0	7.7	130	7.9	110
NPM (%)	5.8	4.6	120	6.3	(50)
Tax rate (%)	25.7	26.2	(50)	22.6	310

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Uncertain environment likely to normalise in the medium term

The consumer durables/electrical industry has seen good demand since H2FY2021, the momentum of which is expected to continue further. The government's Atmanirbhar Bharat program would benefit from capital subsidies and industrial benefit policies being doled out to give a push to in-house manufacturing. Further, demand for electricals and electronics from the housing sector has been robust due to low interest costs and ease of financing. Management expects better supply security and margin improvement with increased in-house manufacturing. Healthy cash positions are likely to aid companies in inorganic growth opportunities, as organised players benefit from a tough environment.

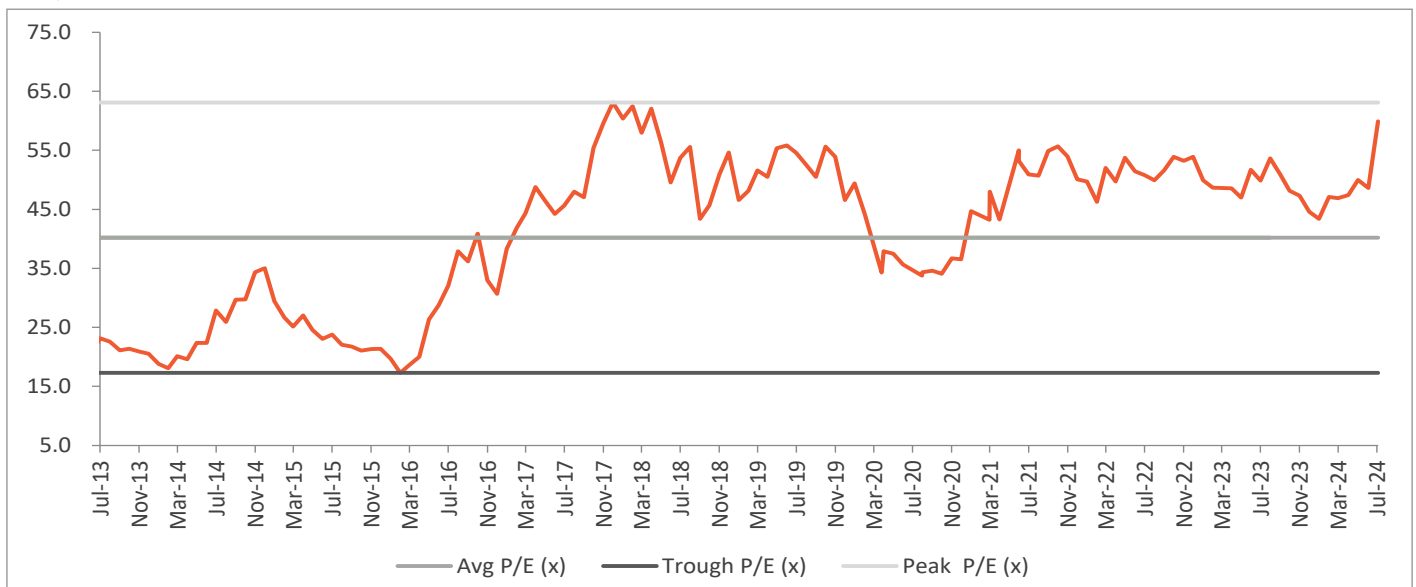
### ■ Company outlook - Multiple growth levers:

Management expects healthy growth to sustain going forward. The company remains focused on 1) Evolving category mix and product mix, 2) Go-to-market with a focus on e-commerce and modern trade, and 3) Distribution enhancement in smaller towns and rural areas, with a focus on the non-south region. The company expects to add 3,000-5,000 retailers every year in the non-south regions. V-Guard has more than 50,000-60,000 retail points. Overall, the management is focusing on maintaining a healthy cash position, cost rationalisation, and expediting digitisation. The acquisition of a leading kitchen appliances brand – Sunflame – is in line with its strategy to become a significant player in the domestic kitchen appliances industry, which currently forms just 4-5% of its total revenues.

### ■ Valuation - Maintain Buy with a revised PT of Rs. 528

V-Guard is on the cusp of a high-growth trajectory, as it is deploying multiple levers for the next level of growth. We are also positive about its acquisition of Sunflame, as it would help the company expand its presence in the fast-growing kitchen appliances segment. The acquisition has a huge potential as V-Guard can leverage on Sunflame's strong presence in traditional channels and scale up its own presence in modern trade and e-commerce platforms. We expect Revenue/PAT CAGR of ~18%/~26% over FY2024-FY2026E EPS. Hence, we retain a Buy recommendation on V-Guard with a revised price target (PT) of Rs. 528, increasing our valuation multiple considering its strong earnings growth trajectory over the next two years.

One-year forward P/E (x) band



Source: Sharekhan Research

## About company

V-Guard is a major electrical appliances manufacturer in India and the largest in Kerala. The company is one of India's consumer goods companies with diversified product offerings. Headquartered in Kochi, Kerala, the company now has over 500 distributors, 30,000 retailers, and numerous branches across India. The company manufactures voltage stabilisers, electrical cables, electric pumps, electric motors, geysers, solar water heaters, air coolers, and UPSs. The company's business segments comprise electronics, electricals, and consumer durables, which contributed 24.1%, 43.6%, and 30.9%, respectively, to FY2023 revenue. Sunflame contributed ~1.4% to the company's consolidated revenue.

## Investment theme

V-Guard is an established brand in the electrical and household goods space, particularly in South India. Over the years, the company has successfully ramped up its operations and network to become a multi-product company. The company is also aggressively expanding in non-south markets and is particularly focusing on tier-II and tier-III cities, where demand is increasing for consumer electricals products. Non-south markets' contribution has increased from 5% of total revenue in FY2008 to around 45% of total revenue in FY2023. Significant investments continue to be made to expand its outlet coverage in non-south geographies and become a dominant pan-India player. V-Guard has a diversified client base and an extensive marketing and distribution network. The client base differs from product to product and includes direct marketing agents, distributors, and retailers.

## Key Risks

- ♦ A relatively weak demand environment in some of the regions may affect V-Guard's earnings in the near term.
- ♦ Intensifying competition and weak performance of consumer durables is a key concern.

## Additional Data

### Key management personnel

Kochouseph Chittilappilly	Chairman
Cherian Punnose	Vice-Chairman
Mithun K Chittilappilly	Managing Director
V. Ramachandran	Director and Chief Operating Officer
Sudarshan Kasturi	Senior VP and CFO

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management	8.10
2	Kotak Mahindra Asset Management	6.49
3	Nalanda India Equity Fund	3.99
4	Aditya Birla Sun Life Asset Management	2.09
5	FundRock Management	1.54
6	Vanguard Group Inc.	1.47
7	Canara Robeco Asset Management	1.11
8	Blackrock Inc.	0.74
9	Credit Agricole Group	0.54
10	ICICI Prudential Asset Management	0.44

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
<b>Positive</b>	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
<b>Neutral</b>	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
<b>Negative</b>	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
<b>Positive</b>	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
<b>Neutral</b>	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
<b>Negative</b>	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
<b>Positive</b>	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
<b>Neutral</b>	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
<b>Negative</b>	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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