Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

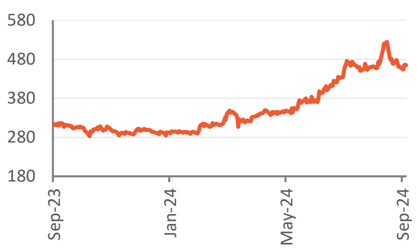
Company details

Market cap:	Rs. 20,220 cr
52-week high/low:	Rs. 577/276
NSE volume: (No of shares)	6.38 lakh
BSE code:	532953
NSE code:	VGUARD
Free float: (No of shares)	19.8 cr

Shareholding (%)

Promoters	54.6
FII	13.7
DIIs	19.7
Others	12.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.8	24.0	38.5	47.6
Relative to Sensex	-2.5	16.5	27.3	22.7

Sharekhan Research, Bloomberg

Stock Update

Company Update

V-Guard Industries Ltd

Banking on recent acquisitions

Capital Goods	Sharekhan code: VGUARD

Reco/View: Buy	↔	CMP: Rs. 465	Price Target: Rs. 540	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain a Buy on V-Guard Industries with a revised PT of Rs 540, factoring in the growth from the Electronics, Electricals, and Kitchen appliances segments. V-Guard currently trades at 63x/48x/41x its FY2025/2026/2027 EPS, respectively.
- Strong performance across segments boosted revenues growth to 13.0% in FY24, and margin improvement was driven by a decline in commodity costs and operational efficiency from the stabilizer plant in Pantnagar.
- Sunflame business integration progressed smoothly in FY24 with the set up of professional and strong leadership at Sunflame.
- We expect Revenue/PAT CAGR of ~17%/~28% over FY2024-FY2027E EPS.

In its FY24 annual report, V-Guard reaffirmed the company's focus on expansion in the south region, new product launches, and stabilising the Sunflame integration. The company's strategy includes adding 3000-4000 new retailers annually to support sales acceleration initiatives across various product categories. In FY24 standalone revenues stood at Rs 4,559 crore up 13% y-o-y. EBITDA jumped by 17.5% y-o-y due to lower raw material cost costs and pricing actions in certain categories. The interest cost was higher due to additional debt raised to acquire Sunflame. The standalone PAT grew by 28.6% led by strong growth and improvement in OPM. 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.

- **Focus on non-south markets:** V-guard is a very well-known brand in South India and is making great efforts to expand its reach to non-south regions by increasing its touch points in non-south regions. The contribution from the non-south areas has significantly increased from 40% in FY20 to 46% in FY24. Non-south markets grew at a faster pace of 13.9% in FY24 than South markets (+11.5%). The company aims to improve its non-South contribution by ~200bps every year for the next 4-5 years and has made inroads into newer markets through its merger with Sunflame, which has strong presence in the North. For Q1FY25 The Non-South business grew faster, by 30% contributing 51% of Q125 revenues, whereas South markets grew by 17%.
- **Inhouse manufacturing to support growth:** The company has revamped its in-house manufacturing, contributing significantly, around 65% in FY24 vs 40-45% in FY20. This shift towards in-house manufacturing has ensured 1) superior quality & finish, 2) product differentiation and 3) cost advantages. Further Sunflame's chimneys & hoods facility that operationalised ahead of merger at Faridabad could potentially be an in-sourcing opportunity with cost advantage of ~7-10%.
- **Management guidance:** 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.
- **Revision in estimates –** We maintain our estimates for FY2025-FY2026E and introduce FY27 estimates.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 540: 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 positivelyupbeat 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 Sunflame's strong presence in traditional channels, scale up its own Sunflame's strong presence in conventional channels, and scale up its presence in modern trade and e-commerce platforms. We expect Revenue/PAT CAGR of ~17%/~28% over FY2024-FY2027E EPS. Hence, we retain a buy recommendation on V-Guard with a price target (PT) of Rs. 540, increasing our valuation multiple times considering its strong earnings growth trajectory over the coming years.

Key Risks

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

Valuation (Standalone) Rs cr

Valuations	FY23	FY24	FY25E	FY26E	FY27E
Net sales	4,051	4,559	5,446	6,361	7,262
OPM (%)	7.4	7.8	9.7	10.5	10.5
Net profit	180	231	320	420	485
Adjusted EPS (Rs.)	4.2	5.3	7.4	9.7	11.2
Y-o-Y growth (%)	(20.8)	28.6	38.7	31.1	15.4
P/E	111.9	87.0	62.7	47.8	41.4
P/B	12.7	11.4	9.9	8.3	7.1
EV/EBITDA	62.1	48.2	36.0	28.3	24.5
RoCE (%)	15.1	16.6	21.2	23.7	24.2
RoNW (%)	12.0	13.8	16.8	18.8	19.2

Source: Company; Sharekhan estimates

Key highlights from Chairman and MD dialect

- The strategic focus was on pan-India expansion, coupled with an expanded distribution network and a robust multi-channel approach. V-Guard has forayed into the canteen Sales Department (CSD) and is focussing progressively on expanding its portfolio.
- In FY24, the kitchen appliances sector faced industry-wide challenges with subdued demand. Sunflame performance was impacted by sector muted growth but gradually picked up growth in 2nd half of 2024.
- The company has made good progress in integrating Sunflame into V-Guard's systems and processes, strengthening backend operations, compliance and controls. Despite challenges faced by the kitchen appliance industry, Sunflame showed resilient performance, notably in the latter half of FY24. V-Guard has strategised the growth plan, which includes brand positioning, Portfolio expansion, Geographical diversification, innovation and channel optimisation. V-Guard also looks to unlock synergies via Sunflame integration and increase profitability.
- Company focussing on innovation investing in a state-of-the-art innovation campus spanning approximately 1.1 lakh square feet. This facility will be the crucible of new thinking and the incubator of groundbreaking ideas.
- In FY24, the company established a dedicated manufacturing facility in Vapi for Mixer grinders and stoves and in Hyderabad for Batteries. These new facilities enhance the company's ability to compete and grow in these categories, positioning us for sustained market leadership and growth in the future. V-Guard will also set up a TPW fans plant in FY25.

New Products launch:

- A total of 800+ SKU's were added across product categories in FY24
- Launched a power backup stabilizer and new mixer grinder for the e-commerce channel.
- Launch of INSIGHT-G, a high-speed premium BLDC fan.
- Launched CONTINO, a tankless water heater.
- Launched Requpro a water purifier with 8 stage advanced purification.

Strategic Objectives and Initiatives:

- Company's long-term strategy is to increase the scale of business, providing high-quality innovative products leveraging technology and digital initiatives. The company's strategy is to add up to 3000-4000 new retailers annually.
- The Company has invested an additional Rs 24 crore in Gegadyne Energy Labs Private Limited (GEL), which is an innovative deep tech energy storage startup in alternative battery technology. GEL has made significant progress towards achieving both technical and commercial milestones. It has transitioned from a basic laboratory scale to a pilot plant level. The next-generation battery technology is expected to find use in V-Guard products, enabling superior performance of the products.
- In FY23, V-Guard acquired and merged Simon Electric Pvt Ltd (SEPL), a subsidiary of the global conglomerate Simon Group headquartered in Spain. In FY24, SEPL has seamlessly integrated into V-Guard's operations, with most backend processes aligned and the entire SEPL team becoming part of V-Guard.
- V-Guard completed the acquisition of a 100% stake in Sunflame Enterprises Private Ltd. (Sunflame) on January 12, 2023, for a total consideration of ₹ 680.33 crore. Sunflame brand has a rich legacy in the Kitchen and Small Domestic Appliances industry and its portfolio includes Gas Cooktops, Chimneys, Induction Cooktops, Hobs, Cookers, Cookware and Other Home and Small Appliances. Business integration efforts progressed swiftly over FY24 starting with setting up a professional and experienced leadership team at Sunflame.

- The company also initiated the Digital Supply Chain 2.0 program to elevate its supply chain to the next level. This program focuses on key aspects such as planning, warehousing, transportation, and vendor relations. The company also launched a Direct-to-consumer platform to enhance market reach and improve consumer engagement.
- The company's growth strategy includes brand positioning, product portfolio expansion, geographical diversification, innovation, and channel optimisation.

Financial and Operating performance:

- FY24 consolidated revenue was at Rs 4,857 crore a 18% growth y-o-y. The Electronics, Electricals and Consumer Durables segments depicted a growth of 17.2%, 9.7% and 13.1% YoY, respectively. Sunflame also registered a revenue growth, albeit on a low base, with revenue at ₹ 274.12 crore. Non-south region contribution to revenues stood at 45.8% vs 45.2% in FY23.
- Segments performance overview:
    - The Electronics business posted 17.2% revenue growth, and margins improved to 14.1% from 13.2% in FY23, aided by a decline in commodity costs and benefits associated with the scale-up of its Stabilizer and Digital UPS facility at Pantnagar.
    - The electrical business grew 9.7%, with segment margins up to 8.6% vs 7.7% in FY23, recovering largely due to the softening of commodity prices and targeted pricing actions.
    - The consumer durables business grew 13.1% YoY, led by strong summer momentum in fans and air cooler category. Margins for the segment improved sequentially from 0.6% in FY23 to 1.2% in FY24 with softening of commodity prices.
- Margins improved sequentially over the last year, helped by the softening of commodity prices and pricing actions in certain categories. Gross margins for the year stood at 33.6% vs. 30.1% in FY23, an expansion of 350 bps YoY
- In the fiscal year, advertising and promotional (A&P) spending returned to normative levels of 2.6% compared to 2.2% in FY23. EBITDA margins for FY24 stood at 8.8%, representing a growth of 100 bps from 7.8% in FY23.

Balance Sheet- Operating cashflows and FCF better y-o-y.

- Cash from operations stood at Rs 393 crore vs Rs 424 crore in FY23.
- Net debt stood at Rs 203 crore vs Rs 357 crore in FY23. Further debt is expected to be reduced as the repayment of sunflame acquisition debt is started.
- The working capital cycled cycle was reduced to 74 days vs. 83 days in FY23.
- The company paid a dividend of Rs. 1.4 per share in FY2024 (dividend payout ratio stood at 24.0%).
- RoE and RoCE improved to 14.2% and 15.7% in FY2024 versus 11.8% and 12.0% in FY2023, respectively, due to revenue growth and improvement in margins.

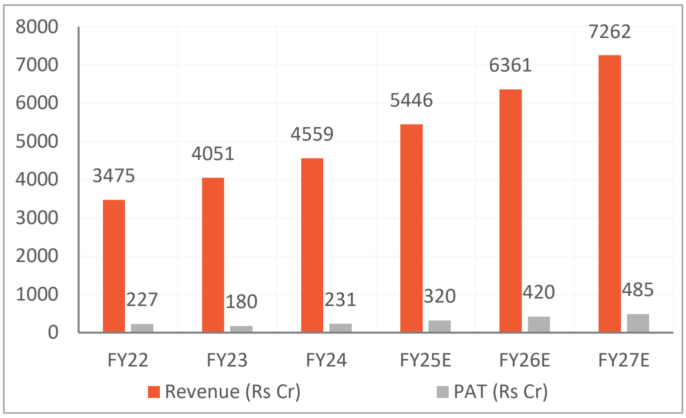
Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
V-Guard	87	62.7	47.8	48.2	36.0	28.3	16.6	21.2	23.7
Havells India	92	70	57	62	48.7	39.3	16.0	18.4	19.2

Source: Company, Bloomberg

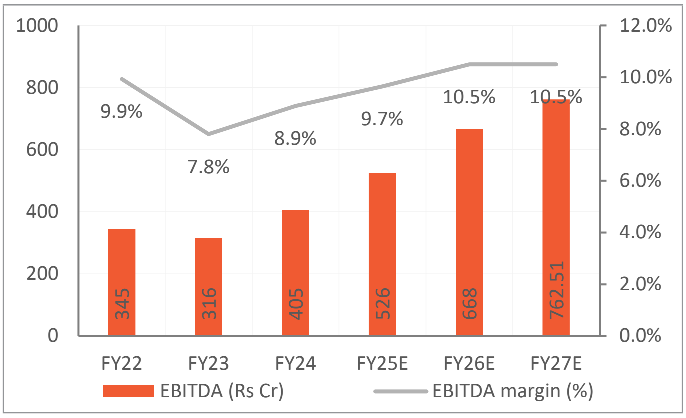
Financials in charts

Steady growth in Revenue and PAT



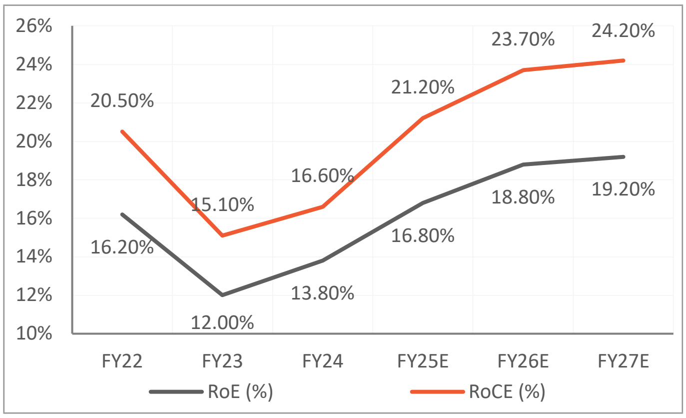
Source: Company, Sharekhan Research

Improvement in EBITDA margins



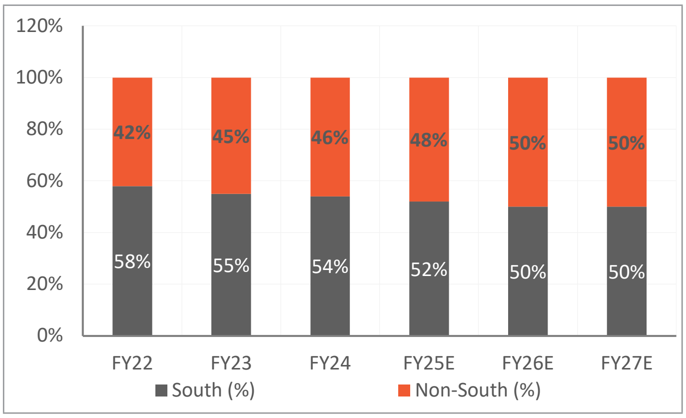
Source: Company, Sharekhan Research

Ad spends remains stable



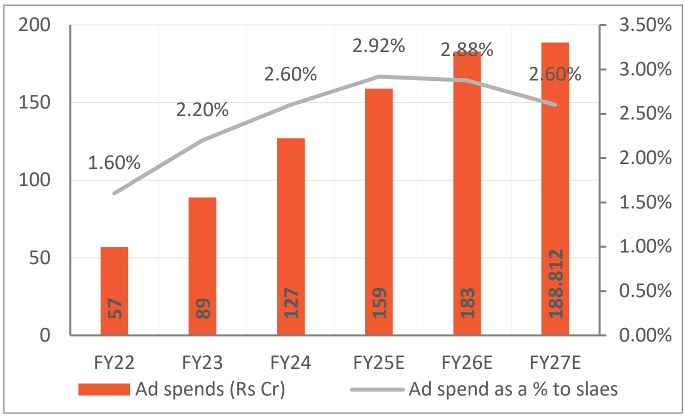
Source: Company, Sharekhan Research

Non-South region and South region contributing equally to revenues



Source: Company, Sharekhan Research

Robust return ratios



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.

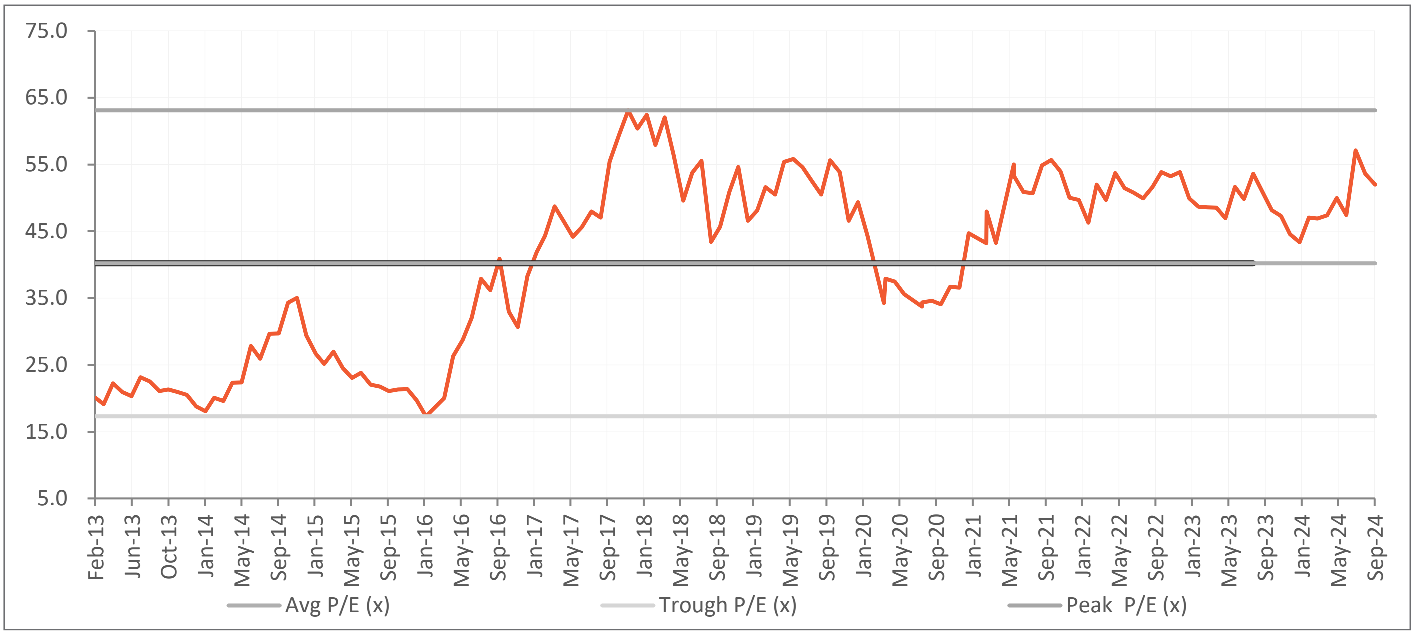
■ Company Outlook – Multiple growth levers

Management expects healthy growth to be sustained 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 1lakh 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. 540

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 ~17%/~28% over FY2024-FY2027E EPS. Hence, we retain a Buy recommendation on V-Guard with a price target (PT) of Rs. 540, increasing our valuation multiple considering its strong earnings growth trajectory over the coming years.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

V-Guard is India's major electrical appliances manufacturer 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, contributing 24.1%, 43.6%, and 30.9% to FY2023 revenue. Sunflame contributed ~1.4% to the company's consolidated revenue.

Investment theme

V-Guard is an established electrical and household goods brand, 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 particularly focuses on tier-II and tier-III cities, where demand is increasing for consumer electrical 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 Emeritus
Mithun K Chittilappilly	Managing Director
V. Ramachandran	Director and Chief Operating Officer
Sudarshan Kasturi	Senior VP and CFO

Source: Company Website

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

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	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	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	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
Negative	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 detoriating balance sheet
Right Valuation	
Positive	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.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	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

Sharekhan

by BNP PARIBAS

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