MIRAE ASSET Sharekhan

V-Guard Industries Ltd

Subdued demand led to soft quarter

Capital Goods	Sharekhan code: VGUARD

Reco/View: Buy	↔	CMP: Rs. 357	Price Target: Rs. 460	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Result Update

3R MATRIX

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		↔	

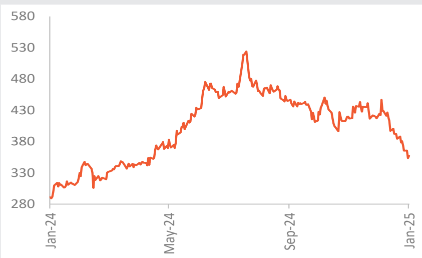
Company details

Market cap:	Rs. 15,523 cr
52-week high/low:	Rs. 577/289
NSE volume: (No of shares)	1.11 lakh
BSE code:	532953
NSE code:	VGUARD
Free float: (No of shares)	19.8 cr

Shareholding (%)

Promoters	54.4
FII	13.7
DIIs	20.3
Others	11.7

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-14.3	-16.5	-22.3	22.9
Relative to Sensex	-11.5	-11.7	-15.9	16.5

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Standalone revenue growth of 9.9% to Rs. 1,185 crore was led by strong performance in electronics (27.9%), while electricals and consumer durables had a moderate growth of 1.2% and 8.1% respectively. Standalone net profit was flat, hit by lower operating margins.
- OPM fell 92 bps on higher advertisement expenses in the Sunflame business.
- In-house manufacturing mix to increase to 75% over the next 12-18 months from 65% currently.
- We retain a Buy with a PT of Rs. 460, given its positive business outlook and revival in Sunflame business.

V-Guard Industries (V-Guard) reported strong standalone revenue growth of 9.9% y-o-y at Rs. 1,185 crore, aided by healthy growth in Electronics segment. Electronic segment strong growth was well supported by continuing demand for Room air-conditioners. Sunflame business had a tepid performance as an impact of tepid demand in the kitchen appliances segment. Demand for wires was, owing to commodity price fluctuations, which led to destocking by dealers. Restocking is resumed in January as copper prices improved. Standalone gross margins rose 88 bps y-o-y to 32.6%, benefitting from lower raw-material cost led by softening of commodity prices and cost-effective initiatives (In-house manufacturing, premiumisation etc.) undertaken by the company. Despite gross margins improvement, standalone net profit was flat owing to lower OPM. Management guides a positive outlook considering the summer season and festive season. The Hyderabad battery facility is operational and is supporting in margins improvement. With new facilities coming online, in-house manufacturing is expected to reach 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 28%, driven by AC stabilisers, inverters, and digital UPS. EBIT margin also improved on account of lower commodity prices and higher in-house manufacturing.
- Southern markets grew 4% y-o-y, whereas non-south markets outpaced the southern markets and grew 16% owing to strong demand for summer products.

Key negatives

- Electricals reported a marginal growth of 1% y-o-y growth as the demand for wires was subdued due to commodity prices fluctuations. driven by fans and air coolers. Overall, the segment's PBT margins were down by 200 bps y-o-y to 4.2%.
- Consumer durables segment grew by 8%, but its margins fell 100 bps as an impact of higher southern region contribution,
- Sunflame business' revenue grew marginally by 4% with significant decline in margins due to higher advertisement and promotion expenses. Recovery is likely in the festive season.

Management Commentary

- Management believes that a continued uptrend in for demand of summer products has led to strong performance in the current quarter.
- The 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.
- Wires channel inventory restocking is up in January with uptick in copper prices.

Revision in earnings estimates – We have reduced our estimates for FY2025-FY2027E.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 460: 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 the modern trade and e-commerce platforms. We expect Revenue/PAT CAGR of ~16%/~25% over FY2024-FY2027E. Hence, we retain a Buy rating with a price target (PT) of Rs. 460, 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)

Rs cr

Valuations	FY23	FY24	FY25E	FY26E	FY27E
Net sales	4,051	4,559	5,302	6,187	7,054
OPM (%)	7.4	7.8	9.1	9.4	10.1
Net profit	180	231	286	356	448
Adjusted EPS (Rs.)	4.2	5.3	6.6	8.2	10.4
Y-o-Y growth (%)	(20.8)	28.6	24.0	24.3	25.8
P/E	101.8	79.2	63.9	51.4	40.8
P/B	11.5	10.4	9.1	7.9	6.7
EV/EBITDA	56.4	43.7	35.7	29.4	23.8
RoCE (%)	15.1	16.6	19.2	20.8	22.5
RoNW (%)	12.0	13.8	15.1	16.4	17.7

Source: Company; Mirae Asset Sharekhan estimates

Q3FY2025 Investor Update and Concall Highlights

- **Outlook:** As per management, the continued strong uptrend in demand of summer-led products has resulted in Electronics business segment during the quarter. Management expects recovery in consumer durables and Sunflame business in the upcoming quarters. EBITDA margin would revert to 10-10.5%.
- ***Sunflame's* acquisition:** The company is in the process of operationally integrating Sunflame, which is expected to take 3-6 months. Sunflame would leverage the company's presence in the South and e-commerce. Presently, V-Guard has its factory at Vapi and Sunflame has its facility in the 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 grew by 28%, driven by AC stabilisers, inverters, and digital UPS. EBIT margin also improved on account of lower commodity prices and higher in-house manufacturing.
- **Electricals:** The electricals segment grew marginally by 1% but was impacted on the margins front due to volatility in copper prices.
- **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 16% contributing 48% of Q2 2025 revenue, whereas South markets grew by 3%.

Results (Standalone) Rs cr

Particulars	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Net Sales	**1,185**	**1,078**	**9.9**	**1,229**	**(3.6)**
Operating Profit	**83**	**85**	**(2.9)**	**91**	**(9.0)**
Other income	5	2	141.1	4	45.9
Interest	5	9	(48.7)	7	(29.6)
Depreciation	20	17	16.5	17	15.5
PBT	**64**	**62**	**3.7**	**71**	**(10.1)**
Tax	16	15	5.5	19	(16.5)
Adj. PAT	48	47	3.1	52	(7.8)
Reported PAT	**48**	**47**	**3.1**	**52**	**(7.8)**
Adj. EPS (Rs.)	1.1	1.1	3.1	1.2	(7.8)
Margin (%)			**BPS**		**BPS**
OPM (%)	7.0	7.9	(92)	7.4	(42)
NPM (%)	4.1	4.3	(27)	4.2	(19)
Tax rate (%)	24.8	24.4	42	26.7	(188)

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Uncertain environment 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 programme 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.

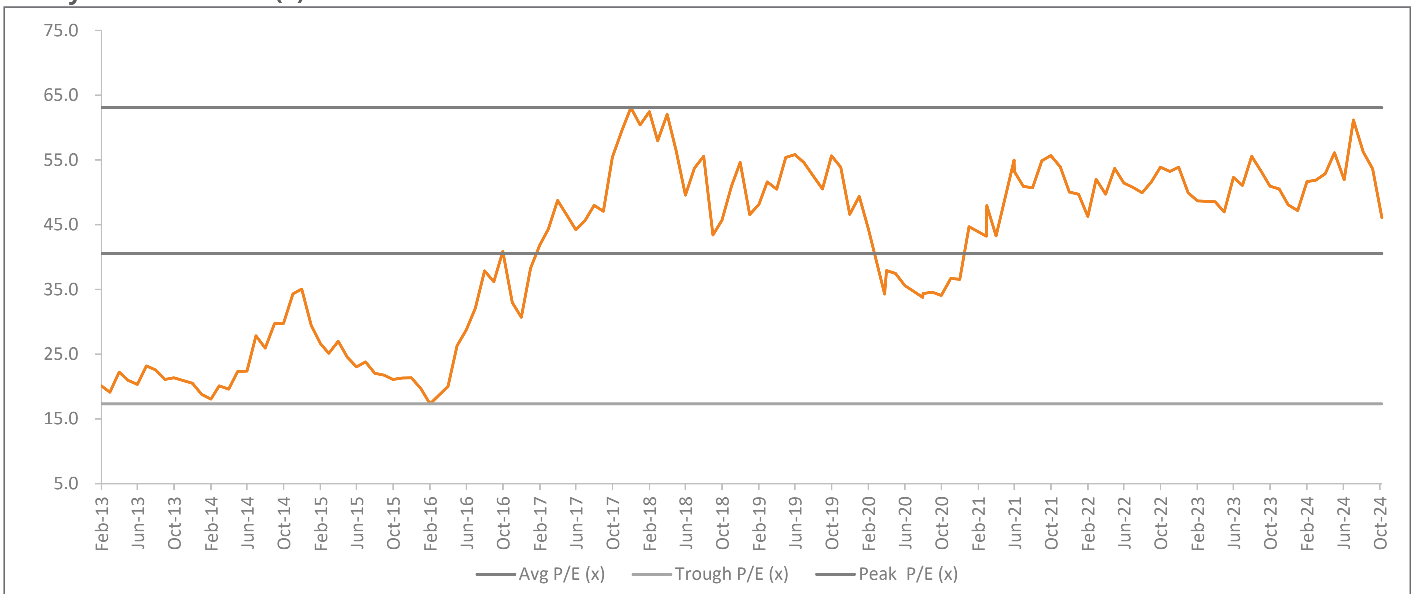
■ Company Outlook – Multiple growth levers

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. 460

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 the modern trade and e-commerce platforms. We expect Revenue/PAT CAGR of ~16%/~25% over FY2024-FY2027E. Hence, we retain a Buy rating with a price target (PT) of Rs. 460, considering its strong earnings growth trajectory over the next two years.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About the 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	7.54
2	Kotak Mahindra Asset Management Co	5.90
3	Nalanda India Equity Fund Ltd	3.61
4	FundRock Management Co SA	3.07
5	Aditya Birla Sun Life Asset Manage	2.30
6	Canara Robeco Asset Management Co	1.50
7	Vanguard Group Inc/The	1.47
8	Nalanda India Fund Ltd	1.47
9	Blackrock Inc	0.73
10	Motilal Oswal Asset Management Co	0.69

Source: Bloomberg

Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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