

26 July 2024

India | Equity Research | Q1FY25 results review

V-Guard Industries

White Goods

Strong start to FY25; healthy margin performance

Takeaways: (1) Gross margin scaled to record high of 36.3% (+380bps YoY) led by (a) lower commodity prices and (b) benefits of cost-saving initiatives. (2) Consumer durables segment is showing strong revenue growth momentum for past three quarters. Strong growth traction may continue in FY25-26E led by higher consumer demand. (3) Sunflame reported subdued performance (revenue: -7.1% YoY) due to weak demand for kitchen appliances. Consumer demand may revive ahead of upcoming festive season. (4) Dependence on core south region has declined as contribution from non-south region has exceeded it. We maintain our positive stance on V-Guard led by demand revival, scope for margin expansion and probable high revenue run-rate in Sunflame (on likely recovery in kitchen appliances in H2FY25E). Maintain **ADD** with DCF-based revised TP of INR 500 (implied P/E of 48x FY26E).

Q1FY25 result

V-Guard's Q1FY25 revenue/ EBITDA/ PAT grew 21.6%/ 48.7%/ 54.1%, respectively YoY. Ex-Sunflame acquisition, organic revenue growth was 23.2% YoY. Gross margin expanded 380bps YoY led by lower input prices. However, EBITDA margin expanded only 192bps YoY to 10.5%. Benefit of commodity deflation is partly offset by higher other expenses (likely increase in ad spends), in our view.

Segment-wise performance

Segment-wise revenue growth rates: Electronics: +41.1%; Electricals: +6.8% and consumer durables: +26.1% YoY. Sunflame revenue declined 7.1% YoY. Strong demand for summer products in electronics and consumer durable segment led to strong segmental revenue growth YoY. EBIT margin expanded for all segments YoY, except Sunflame (-559bps YoY). South/ North India revenue (ex-Sunflame) was up 17.3%/ 29.5% YoY, respectively.

Geographical diversification is playing out well

Ex-Sunflame, revenue contribution from non-south region (50.9%) exceeded the core south region's contribution (49.1%) in Q1FY25. We note the contribution of non-south region to total sales has gradually increased over the years (44% in Jun'18). V-Guard's non-south region sales grew at a CAGR of 18% against 10.4% of south region sales over FY19-24.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	41,260	48,567	57,884	67,971
EBITDA	3,199	4,267	6,020	7,069
EBITDA Margin (%)	7.8	8.8	10.4	10.4
Net Profit	1,891	2,576	3,675	4,501
EPS (INR)	4.4	5.9	8.5	10.4
EPS % Chg YoY	(17.1)	35.5	42.7	22.5
P/E (x)	105.2	77.6	54.4	44.4
EV/EBITDA (x)	62.9	47.2	33.2	27.9
RoCE (%)	10.4	12.0	16.0	16.7
RoE (%)	12.5	15.1	18.7	19.6

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Market Data

Market Cap (INR)	200bn
Market Cap (USD)	2,390mn
Bloomberg Code	VGRD IN
Reuters Code	VGUA.BO
52-week Range (INR)	528 /276
Free Float (%)	42.0
ADTV-3M (mn) (USD)	3.8

Price Performance (%)	3m	6m	12m
Absolute	34.2	56.9	63.9
Relative to Sensex	26.6	43.7	43.3

Earnings Revisions (%)	FY25E	FY26E
Revenue	2.8	5.1
EBITDA	10.8	10.4
EPS	15.0	14.8

Previous Reports

20-05-2024: [Q4FY24 results review](#)

02-02-2024: [Q3FY24 results review](#)

Consumer durable segment sales are gaining traction

We note consumer durable segment has reported strong growth YoY over the past three quarters (+26.1% YoY in Q1FY25). Strong demand for summer season products has boosted segmental sales in Q1FY25. The company has passed on commodity inflation with price increase (~2% in Q1FY25) in fans. We believe revenue growth traction may continue over FY25-26E.

Subdued performance in Sunflame

Sunflame's revenue/EBIT declined 7.1%/57.8% YoY. Weak consumer demand primarily led to lower revenue. We believe the performance may improve in the rest of quarters in FY25 led by (1) demand revival likely in kitchen appliances segment (led by festive season) and (2) benefits of strategic initiatives undertaken.

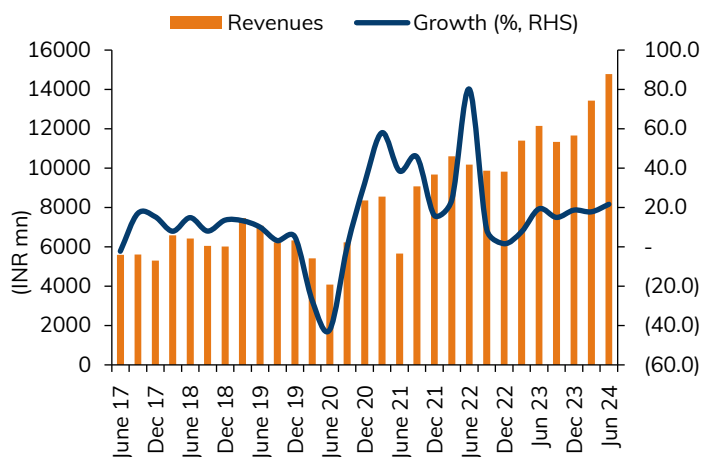
Valuation and risks

We model V-Guard to report revenue/PAT CAGR of 18.3%/32.2% over FY24-26E with gradual increase in RoCE. We rate V-Guard as **ADD** with DCF-based revised target price of INR 500 (earlier TP: INR 395; implied P/E of 48x FY26E). Key risks: Steep competition and material inflation in commodity prices.

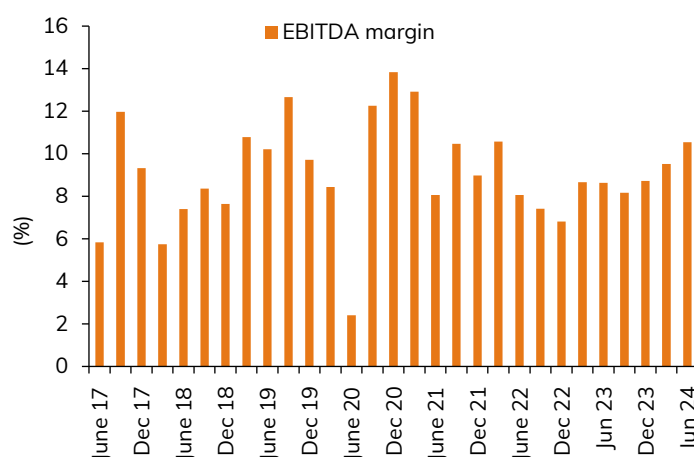
Exhibit 1: Q1FY25 consolidated financial performance

Y/e March (INR mn)	Q1FY25	Q1FY24	YoY % chg.	Q4FY24	QoQ % chg.
Revenue	14,771	12,148	21.6	13,428	10.0
Expenditure					
Raw materials	9,408	8,199	14.7	8,826	6.6
% of revenue	63.7	67.5		65.7	
Employee cost	1,226	1,040	17.9	1,102	11.3
% of revenue	8.3	8.6		8.2	
Other expenditure	2,580	1,862	38.6	2,222	16.1
% of revenue	17.5	15.3		16.5	
Total expenditure	13,213	11,100	19.0	12,149	8.8
EBITDA	1,558	1,048	48.7	1,279	21.8
EBITDA margin	10.5	8.6		9.5	
Other income	69	118	(41.4)	49	41.3
PBDIT	1,627	1,165	39.6	1,327	22.6
Depreciation	217	198	9.9	222	(2.0)
PBIT	1,410	968	45.7	1,106	27.5
Interest	86	109	(20.8)	99	(13.6)
PBT	1,324	859	54.1	1,006	31.5
Prov. for tax	334	217	53.9	245	36.5
% of PBT	25.2	25.2		24.3	
PAT before MI/Share of associates	990	642	54.1	762	29.9
Pref Dividend/ Minority Interest	-	-	-	-	-
Adjusted PAT	990	642	54.1	762	29.9
Extraordinary items	-	-		(28)	
Net profit	990	642	54.1	734	34.8

Source: Company data, I-Sec research

Key performance highlights
Exhibit 2: Revenue and revenue growth


Source: Company data, I-Sec research

Exhibit 3: EBITDA margin


Source: Company data, I-Sec research

Exhibit 4: Segment-wise performance

Particulars	Q1FY25	Q1FY24	YoY % chg.	Q4FY24	QoQ % chg.
Revenues (INR mn)					
Electronics	5,131	3,637	41.1%	3,228	59.0%
Electricals	4,877	4,567	6.8%	5,814	-16.1%
Consumer Durables	4,176	3,312	26.1%	3,657	14.2%
Sunflame	587	632		730	-19.6%
Total	14,771	12,148	21.6%	13,428	10.0%
EBIT (INR mn)					
Electronics	1,035	671	54.3%	405	155.9%
Electricals	492	394	24.8%	595	-17.4%
Consumer Durables	217	84	160.2%	48	352.7%
Sunflame	27	65		69	-60.4%
Total	1,771	1,213	46.0%	1,117	58.6%
EBIT margin (%)					
Electronics	20.2	18.4		12.5	
Electricals	10.1	8.6		10.2	
Consumer Durables	5.2	2.5		1.3	
Sunflame	4.7			9.4	
Total	12.0	10.0		8.3	

Source: Company data, I-Sec research

Exhibit 5: Geography-wise performance (ex-Sunflame)

Particulars	Q1FY25	Q1FY24	YoY % chg.	Q4FY24	QoQ % chg.
Revenues (INRmn)					
South India	6,962	5,937	17.3%	6,967	-0.1%
Non-South India	7,223	5,579	29.5%	5,731	26.0%
Total (Ex-Sunflame)	14,184	11,516	23.2%	12,698	11.7%
Sunflame	587	632		730	
Total	14,771	12,148		13,428	
As % of Total sales					
South India	49.1	51.6		54.9	
Non-South India	50.9	48.4		45.1	
Total	100.0	100.0		100.0	

Source: Company data, I-Sec research

Q1FY25 conference call highlights

- **Growth guidance:** V-Guard aims to register 13-15% revenue growth YoY in FY25. Also, EBITDA margin is guided to be in 9-10% range.
- **Electronics segment:** Margin trajectory for inverters has structurally improved led by increase in in-house manufacturing. However, it remains under pressure for battery segment. V-guard is setting up its own facility. Benefits of higher in-house manufacturing for battery business may be visible from FY25-end/FY26.
- **Fan price increase:** The company has hiked prices of fans to pass-on commodity inflation. Earlier, two events led to pricing action in fans: (1) Geopolitical issues and (2) change in rating transition. V-Guard has undertaken 2% price increase in Q1FY25 in addition to another 2% taken in Q4FY24.
- **Debt repayment in Sunflame:** The company has repaid INR 70mn of term loan in Apr'24 and aims to repay similar amount by Jul'24-end. Additionally, it intends to repay the entire debt by FY25-end/Q1FY26.
- **Growth triggers for stabiliser and UPS market:** While power distribution has improved across India, the usage of stabiliser and inverter batteries has also grown over the years.

At present, larger cities are getting privatised for power distribution; however, other territories continue to be sourced by government power distribution entities. There is high scope for improvement in stabilisers and UPS market amongst such territories.

The time-length of power interruption has shortened. However, consumers need an alternative in case there is power disruption. This is creating demand for stabilisers and UPS market. Stabiliser segment may report 8-9% CAGR over the next 4-5 years.

- **Kitchen appliances segment:** It is undergoing a challenging period as demand has remained weak for past seven quarters. The company is optimistic about some demand revival ahead of festive season.

V-Guard believes growth in kitchen appliances segment may improve in near term led by (1) increase in own manufacturing and (2) revival in consumer demand. The company is focusing on improving its online channel mix which may further aid growth.

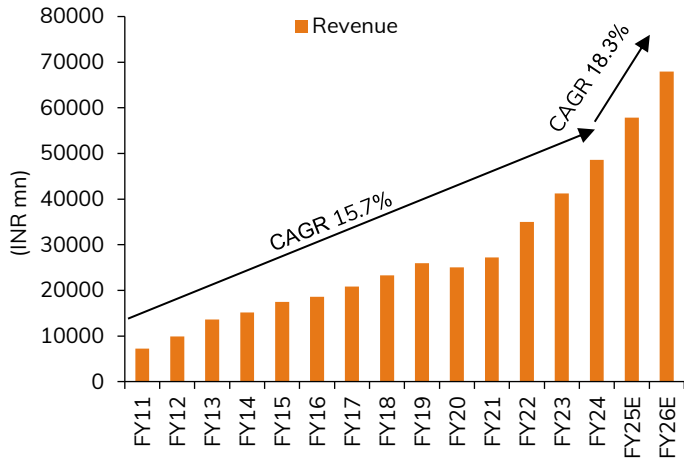
It has established its own kitchen appliances facility at Vapi (in Gujarat) which may commission by Oct-Nov'24. The mixer grinder is likely to contribute ~65-70% of total output from Vapi plant. This plant may also serve Sunflame's mixer grinder requirements.

V-Guard's kitchen appliances segment may register revenue of INR 2bn in FY25. Sunflame may register INR 3.3-3.5bn of revenue in FY25.

- **Growth across sub-segments:** Switches and switchgear segment has reported double-digit revenue growth. Water heater segment had relatively weak FY24, however, trade up-stocking in coming months may boost FY25 revenue growth.
- **Brand advertising strategy:** V-Guard operates with multi-product category. Typically, a brand ambassador is appointed to advertise a single product category. As the company has multiple business categories, it has not appointed any brand ambassador for advertising the products.
- **Revival in advertising and promotion spends:** The company used to spend 2.5%-3% of sales on advertising and promotion in pre-covid period. It had materially cut its advertising and promotion spends during covid period which marginally increased in FY23 and FY24. The trend has continued in Q1FY25 with relatively higher spend on advertising and promotion.
- **Working capital cycle:** It stood at 49 days at end of Q1FY25 against 70 days in Q1FY24.
- **Outsourcing model:** The company indicates to lower its outsourcing contribution to ~25% by FY27-28 from 40% in FY22-23. A combination of in-house and outsourcing model may be used in the future based on the requirement of business category. At present, V-Guard manufactures mid and premium segment fans in its own manufacturing facilities while it outsources the production of economy segment to contract manufacturers.

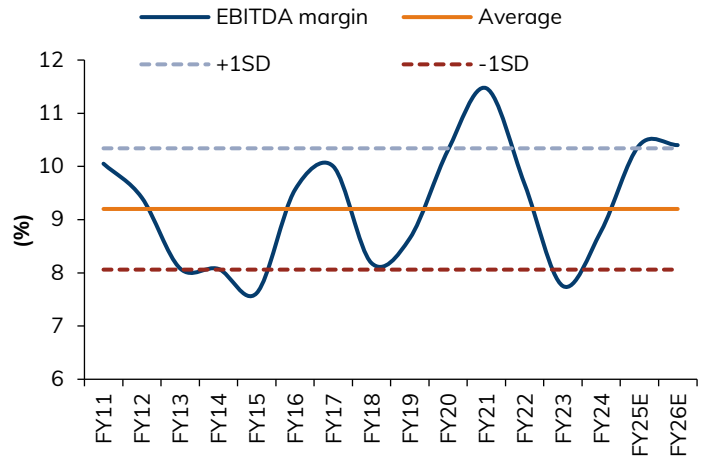
Key indicators – Annual

Exhibit 6: Revenue and revenue growth



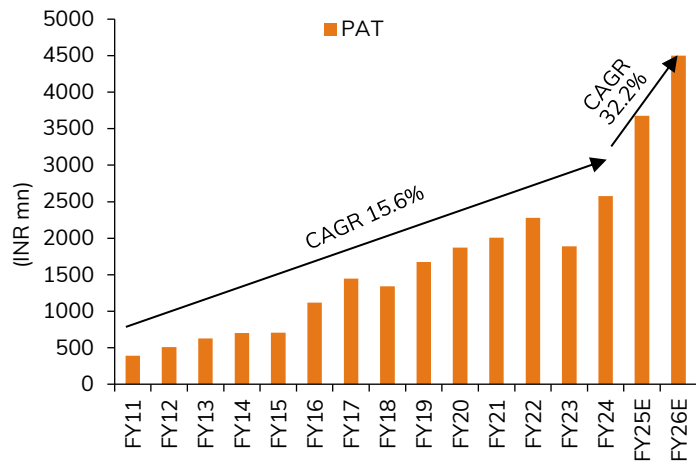
Source: Company data, I-Sec research

Exhibit 7: EBITDA margin



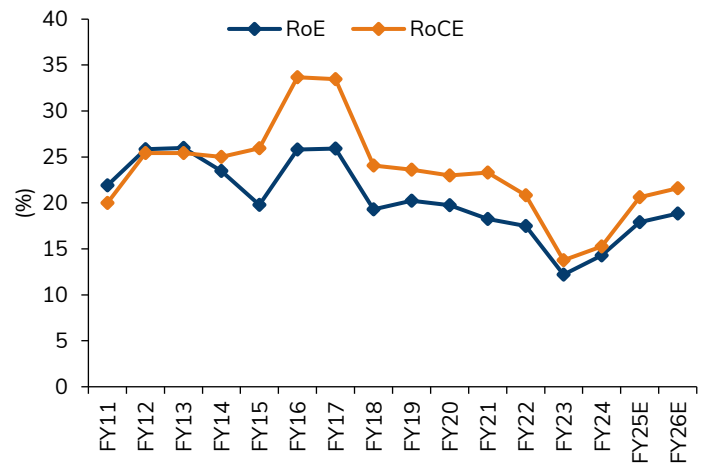
Source: Company data, I-Sec research

Exhibit 8: PAT and PAT growth



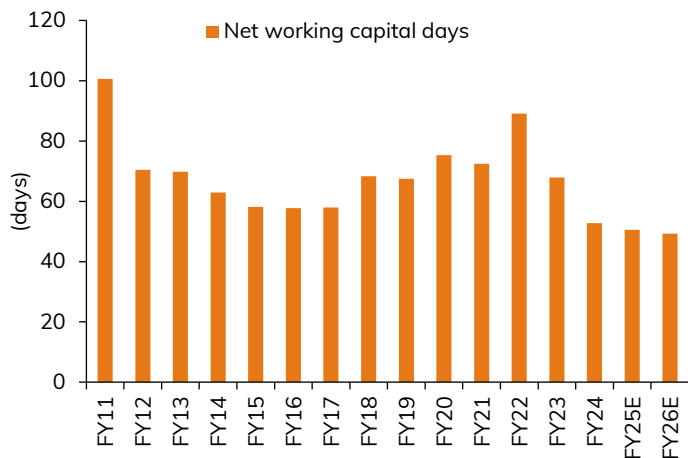
Source: Company data, I-Sec research

Exhibit 9: RoE and RoCE



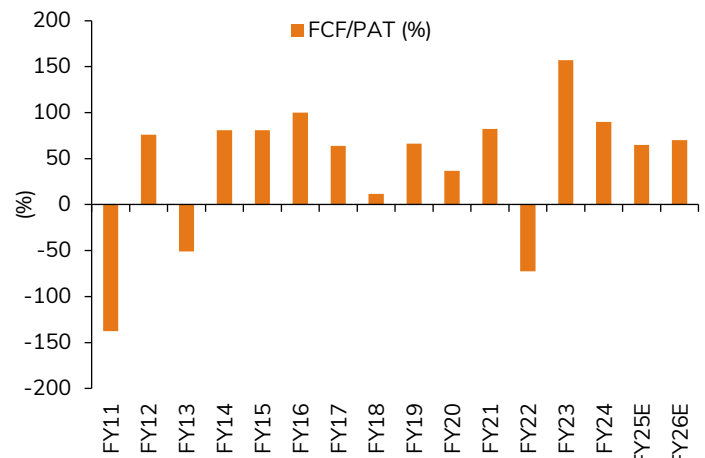
Source: Company data, I-Sec research

Exhibit 10: Net working capital days



Source: Company data, I-Sec research

Exhibit 11: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

We model V-Guard to report revenue and PAT CAGRs of 18.3% and 32.2% over FY24-FY26E. We estimate RoE to improve from 15.1% in FY24 to 19.6% in FY26E. At our DCF-based revised target price of INR 500 (earlier TP: INR 395), implied P/E works out to 48x FY26E EPS. Maintain **ADD**.

Exhibit 12: DCF-based valuation

Particulars	
Cost of Equity (%)	10.9%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (INR mn)	88,731
Discounted terminal value (INR mn)	1,28,469
Total equity value (INR mn)	2,17,200
Value per share (INR)	500

Source: Company data, I-Sec research

Risks

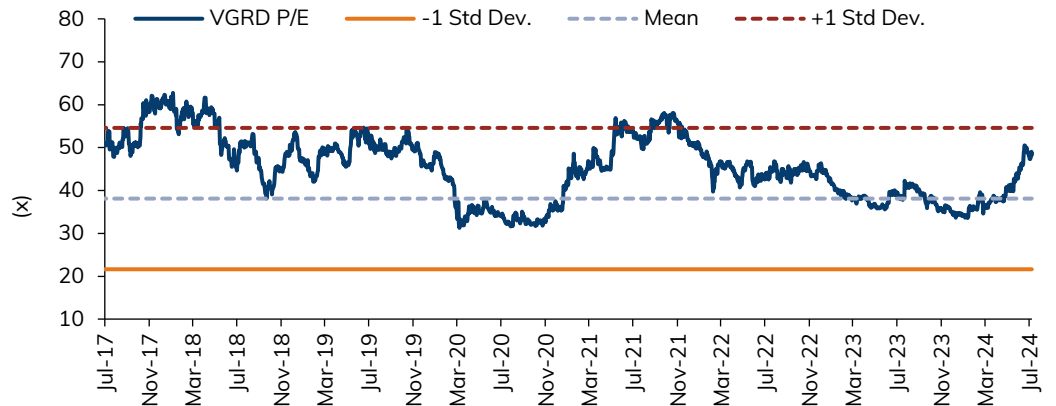
Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures may result in downside to our estimates.

Delays in launch of new plants/products

Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 13: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Exhibit 14: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	54.6	54.5	54.5
Institutional investors	33.4	33.5	36.6
MFs and others	20.0	20.0	12.9
FIs/Banks	0.0	0.0	0.0
Insurance	0.4	0.2	5.0
FIIIs	13.0	13.3	18.6
Others	12.0	12.0	8.9

Source: Bloomberg

Exhibit 15: Price chart



Source: Bloomberg

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	41,260	48,567	57,884	67,971
Operating Expenses	38,061	44,300	51,864	60,902
EBITDA	3,199	4,267	6,020	7,069
EBITDA Margin (%)	7.8	8.8	10.4	10.4
Depreciation & Amortization	644	809	964	1,059
EBIT	2,555	3,458	5,056	6,010
Interest expenditure	162	395	357	357
Other Non-operating Income	164	340	215	365
Recurring PBT	2,557	3,403	4,913	6,018
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	667	827	1,238	1,516
PAT	1,890	2,576	3,675	4,501
Less: Minority Interest	(1)	-	-	-
Extraordinaries (Net)	200	(28)	-	-
Net Income (Reported)	2,092	2,548	3,675	4,501
Net Income (Adjusted)	1,891	2,576	3,675	4,501

Source Company data, I-Sec research

Exhibit 17: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	15,051	16,073	18,928	21,776
of which cash & cash eqv.	669	574	720	641
Total Current Liabilities & Provisions	6,700	8,483	10,188	11,963
Net Current Assets	8,351	7,590	8,741	9,813
Investments	2,284	1,746	3,246	5,746
Net Fixed Assets	8,850	10,797	11,454	11,645
ROU Assets	-	-	-	-
Capital Work-in-Progress	273	371	-	-
Total Intangible Assets	2,528	2,528	2,528	2,528
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	22,287	23,033	25,969	29,732
Liabilities				
Borrowings	5,261	3,971	3,971	3,971
Deferred Tax Liability	951	919	919	919
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	432	434	434	434
Reserves & Surplus	15,644	17,708	20,644	24,407
Total Net Worth	16,076	18,142	21,079	24,841
Minority Interest	-	-	-	-
Total Liabilities	22,287	23,033	25,969	29,732

Source Company data, I-Sec research

Exhibit 18: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	11,338	11,654	13,428	14,771
% growth (YoY)	14.9	18.6	17.8	21.6
EBITDA	925	1,016	1,279	1,558
Margin %	8.2	8.7	9.5	10.5
Other Income	142	32	49	69
Extraordinaries	-	-	(28)	-
Adjusted Net Profit	590	582	762	990

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,983	3,591	3,634	4,410
Working Capital Changes	1,414	308	(1,005)	(1,150)
Capital Commitments	(1,026)	(1,282)	(1,250)	(1,250)
Free Cashflow	2,956	2,308	2,384	3,160
Other investing cashflow	(6,706)	(272)	(1,500)	(2,500)
Cashflow from Investing Activities	(7,733)	(1,555)	(2,750)	(3,750)
Issue of Share Capital	20	61	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	4,078	(1,456)	-	-
Dividend paid	(561)	(563)	(738)	(738)
Others	-	-	-	-
Cash flow from Financing Activities	3,537	(1,957)	(738)	(738)
Chg. in Cash & Bank balance	(213)	79	146	(78)
Closing cash & balance	395	475	720	641

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	4.4	5.9	8.5	10.4
Adjusted EPS (Diluted)	4.4	5.9	8.5	10.4
Cash EPS	5.9	7.8	10.7	12.8
Dividend per share (DPS)	1.3	1.3	1.7	1.7
Book Value per share (BV)	37.2	41.8	48.5	57.2
Dividend Payout (%)	29.7	21.8	20.1	16.4
Growth (%)				
Net Sales	17.9	17.7	19.2	17.4
EBITDA	(5.4)	33.4	41.1	17.4
EPS (INR)	(17.1)	35.5	42.7	22.5
Valuation Ratios (x)				
P/E	105.2	77.6	54.4	44.4
P/CEPS	78.4	59.1	43.1	36.0
P/BV	12.4	11.0	9.5	8.0
EV / EBITDA	62.9	47.2	33.2	27.9
P / Sales	4.8	4.1	3.5	2.9
Dividend Yield (%)	0.3	0.3	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	30.1	33.6	34.0	34.0
EBITDA Margins (%)	7.8	8.8	10.4	10.4
Effective Tax Rate (%)	26.1	24.3	25.2	25.2
Net Profit Margins (%)	4.6	5.3	6.3	6.6
NWC / Total Assets (%)	34.5	30.5	30.9	30.8
Net Debt / Equity (x)	0.1	0.1	0.0	(0.1)
Net Debt / EBITDA (x)	0.7	0.4	0.0	(0.3)
Profitability Ratios				
RoCE (%)	10.4	12.0	16.0	16.7
RoE (%)	12.5	15.1	18.7	19.6
RoC (%)	11.9	13.7	18.5	20.7
Fixed Asset Turnover (x)	4.8	3.9	4.0	4.2
Inventory Turnover Days	73	66	67	67
Receivables Days	54	48	48	47
Payables Days	58	62	64	63

Source Company data, I-Sec research

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