

Non-south regions drive performance...

About the stock: V-Guard is among India's leading fast moving consumer electrical companies with market leadership position in the stabiliser business.

- The company has a wide portfolio of products ranging from switchgears, water heaters, stabilisers, fans and many more
- The company has maintained strong return ratios with RoE and RoCE at ~18% and ~24%, respectively (three year's average)

Q1FY22 Results: The company reported a better-than-expected Q1FY22 performance despite pandemic led disruptions in its key selling markets.

- Topline grew ~39% YoY to ₹ 565 crore, aided by low base, strong growth in electronics, consumer durables (up 39%, 75% YoY, respectively)
- Gross margin increased ~408 bps YoY, supported by price hikes (~2-3%) in Q1FY22, which drove EBITDA margin up ~564 bps to 8.1%
- PAT grew 7x YoY to ₹ 26 crore

What should investors do? V-Guard's share price has grown by ~2x over the past five years (from ~₹ 122 in July 2016 to ~₹ 250 levels in July 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value V-Guard at ₹ 310 i.e. 44x P/E on FY23E EPS

Key triggers for future price performance:

- Expansion in non-south regions (revenue contribution increased from 37% in FY18 to 43.2% in Q1FY22) and government housing thrust (to build 1.7 crore new houses under PMAY) will be key growth driver for V-Guard
- Plan to increase in-house manufacturing from current 40% to 60%, which will help the company to improve profitability
- Strong CFO generation in FY21 of ~₹ 226 crore in FY21 vs. ₹ 153 crore in FY20

Alternate Stock Idea: We also like CGCEL in our coverage universe.

- Market leader in the domestic fan industry with value market share of 24%. The company has increased focus on increasing market share in home appliances categories
- BUY with a target price of ₹ 540



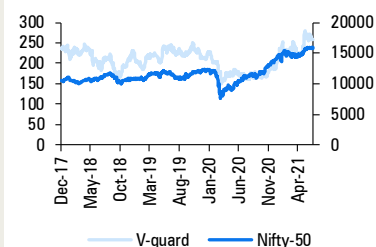
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	10,578.7
Total Debt (FY21) (₹ Crore)	13.0
Cash and Inv (FY21) (₹ Crore)	281.2
EV (₹ Crore)	10,310.6
52 week H/L	285 / 160
Equity capital (₹ Crore)	42.5
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	62.7	62.7	62.6	62.6	57.2
FII	13.4	13.1	12.5	13.0	14.9
DII	13.4	13.3	13.1	13.2	13.9
Others	10.5	10.9	11.8	11.2	14.0

Price Chart



Recent event & key risks

- Key Risk:** (i) Extended lockdown in southern region, (ii) Delay in passing on high input prices

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	4 Years CAGR (FY17-21)	FY22E	FY23E	2 Years CAGR (FY21-23E)
Net Sales	2594.0	2502.9	2721.2		3236.8	3882.5	19.4
EBITDA	224.3	258.0	312.1		319.8	411.5	14.8
EBITDA Margin (%)	8.6	10.3	11.5		9.9	10.6	
PAT	168.1	188.3	201.9		226.3	301.4	22.2
EPS (₹)	3.9	4.4	4.7		5.3	7.0	
P/E(x)	62.6	56.0	52.4		46.8	35.1	
Price /Book Value (x)	11.7	10.6	8.7		8.7	7.7	
EV/EBITDA (x)	46.5	40.5	33.0		32.1	25.1	
RoE (%)	18.7	18.9	16.7		18.5	22.0	
RoCE (%)	24.1	25.1	23.9		24.2	28.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results:

- Revenue was at ₹ 565 crore, up 39% YoY. Revenue growth was aided by strong growth in electricals and consumer durable segment by ~39% and ~75% YoY, respectively
- Gross margin increased ~408 bps due to price hikes passed on by the company and a better product mix. This, along with improved operating leverage helped EBITDA margins grow ~564 bps to 8.1%
- PAT increased 7x YoY to ₹ 26 crore due to higher sales and margin expansion

Q1FY22 Earnings Conference Call highlights

- Demand outlook:** The company lost ~₹ 250 crore of sales in May 2021 due to lockdown. According to the management, there is not much demand disruption in Kerala despite higher number of Covid-19 cases. Sales in July have been encouraging. The company expects 100% sales recovery in 9MFY22
- Price hikes:** V-Guard has taken price hikes in the range of 6-11% (excluding wire & cable) across the product portfolio from H2FY21. One-third of the total hike has been taken in Q1FY22. The management has indicated at further price hikes if raw material prices continue to rise
- EBITDA margin:** The company has guided for EBITDA margin of ~10-11% for FY22
- Capex:** Total ~₹ 80 crore of capex for FY22E, including a new R&D facility in Kochi

Exhibit 1: Peer Comparison

Mcap ₹ crore	Sales				EBITDA margin				PAT				RoE				RoCE				PE				
	FY20	FY21	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	
Havells Ind	73,620	9429.2	10427.9	12800.5	15049.4	10.9	15.0	13.5	14.8	733.0	1039.6	1170.7	1515.7	17.0	20.1	21.3	25.7	19.6	24.9	25.6	31.1	100.4	70.8	62.9	48.6
Voltas	34,694	7658.1	7555.8	8950.8	9822.8	9.0	8.5	8.8	11.1	521.0	528.8	699.5	956.0	13.0	10.6	14.4	17.1	19.5	15.0	19.5	23.0	66.6	65.6	49.6	36.3
Bajaj Ele	12,165	4987.2	4584.6	5508.1	6205.1	4.2	6.6	8.2	10.4	-10.3	189.0	304.3	457.4	-0.8	10.7	18.4	22.2	7.9	15.1	21.8	28.1	NM	64.9	40.3	26.8
V-guard	10,579	2502.9	2721.2	3236.8	3882.5	10.3	11.5	9.9	10.6	188.3	201.9	226.3	301.4	18.9	16.7	18.5	22.0	25.1	23.9	24.2	28.4	56.0	52.4	46.8	35.1
CGCEL	29,334	4520.3	4803.5	5462.9	6566.7	13.3	15.0	13.9	14.6	496.4	616.7	583.8	749.3	33.8	31.9	29.0	33.2	38.3	34.4	36.6	42.1	59.1	47.6	50.3	39.1
Polycab	29,033	8830.0	8926.5	10665.3	12457.3	12.9	13.1	12.9	13.4	765.6	885.9	965.9	1185.3	20.0	18.5	17.8	18.6	26.4	21.9	22.7	24.3	37.9	32.8	30.1	24.5

Source: Company, ICICI Direct Research

V-Guard has gradually transformed from a regional to a national player. Currently, non-south regions sales contribution to its total sales is at 43%, increasing from 37% in FY18. We believe expansion in newer geographies, coupled with improving gross margin profile of non south regions would help drive future revenue and profitability of the company. We model revenue, earning CAGR of 19%, 22%, respectively, in FY21-23E. We maintain our BUY rating on the stock.

Exhibit 2: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comment
Revenue	536.6	802.4	739.7	-27.5	626.6	-14.4	Sales growth was impacted by lockdown in March
Other Income	5.2	5.9	6.8	-23.2	5.4	-4.7	
Raw Material Exp	59.5	206.8	186.0	-68.0	195.8	-69.6	Change in product mix coupled with benign raw material prices drove gross margin up 374 bps YoY
Employee Exp	43.2	58.9	52.5	-17.9	58.4	(26.1)	
Other Exp	90.6	117.1	88.2	2.7	90.2	0.4	Advertisement & promotional expense (down 100 bps YoY during Q4FY20)
Purchase of Traded goods	298.2	347.6	334.8	-10.9	222.8	33.9	
EBITDA	45.2	72.0	78.1	-42.2	59.4	-24.0	
EBITDA Margin (%)	8.4	9.0	10.6	-215 bps	9.5	-107 bps	EBITDA margin largely impacted by low operating leverage
Depreciation	7.1	7.0	5.5	27.8	7.3	-3.3	
Interest	0.9	1.1	0.2	286.2	1.0	-13.0	
PBT	42.4	69.8	79.1	-46.4	56.5	-25.0	
Total Tax	9.9	17.5	19.9	-50.3	13.7	-27.6	
PAT	32.5	52.4	59.2	-45.1	42.9	-24.2	Impacted by lower sales and decline in EBITDA
Key Metrics							
Electronics	150.3	215.0	205.5	-26.8	153.8	-2.3	
Electricals	242.2	393.7	355.2	-31.8	270.9	-10.6	
Consumer Durable	144.1	193.6	179.0	-19.5	202.0	-28.6	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	%chg	Old	New	%chg	
Revenue	3,184.8	3236.8	1.6	3,797.8	3882.5	2.2	We have slightly tweaked our revenue estimate upward considering management guidance on limited impact of covid-19 led lockdowns (in southern region) on company's sales
EBITDA	327.1	319.8	(2.2)	425.4	411.5	(3.3)	
EBITDA Mar %	10.3	9.9	-42bps	11.2	10.6	-60bps	We have slightly revised our EBITDA margin estimate downside considering management guidance
PAT	236.3	226.3	(4.2)	312.1	301.4	(3.4)	
EPS (₹)	5.5	5.3	(4.2)	7.3	7.0	(3.3)	

Source: ICICI Direct Research

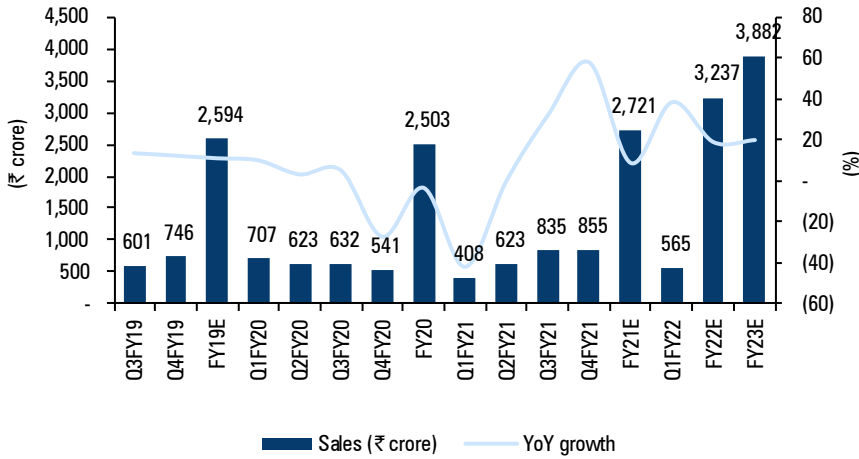
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Electronics Growth	-0.7	-8.1	34.0	12.7	34.0	12.7	Recovery in demand of cooling products will drive demand of stabilisers while UPS segment sales will be driven by new launches
Electricals Growth	-6.7	-3.7	23.4	10.0	23.4	10.0	We believe recovery in the construction activities would drive demand of wire, pump and new launches in the switchgear segment
Cons. Durable Growth	-0.5	-3.2	23.2	13.7	23.2	13.7	Favourable base and new product launches (water purifier, breakfast appliances, and kitchen hobs and Chimneys) will drive segment revenue

Source: ICICI Direct Research

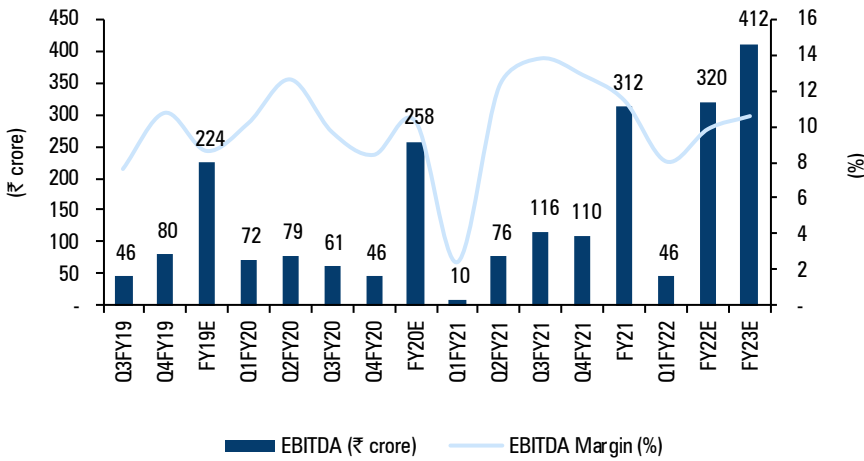
Financial story in charts

Exhibit 5: Limited impact of lockdown on sales in southern regions to help in faster recovery of seasonal product sales



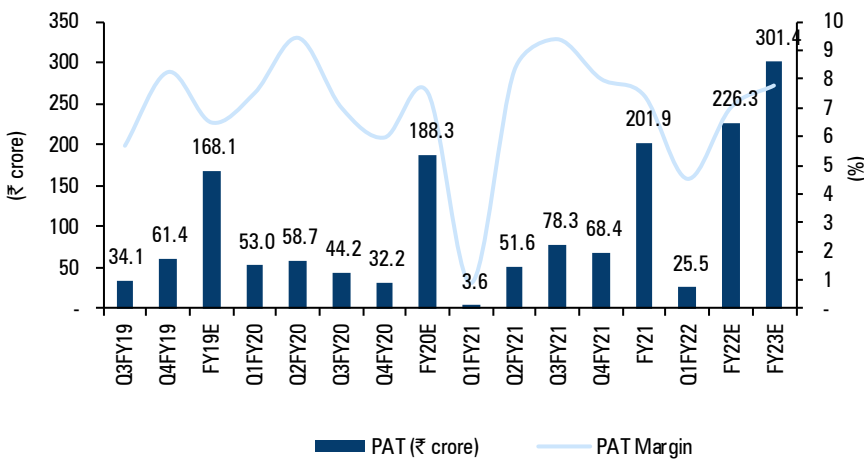
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT movement



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	2502.9	2721.2	3236.8	3882.5
Growth (%)	-3.5	8.7	18.9	19.9
Expenses				
Raw Material Expenses	1661.8	1852.5	2201.0	2620.7
stock				
Employee Expenses	208.8	226.6	242.8	310.6
Administrative Expenses	317.6	305.5	414.3	446.5
Total Operating Expenditure	2244.9	2409.1	2916.9	3470.9
EBITDA	258.0	312.1	319.8	411.5
Growth (%)	15.0	21.0	2.5	28.7
Other Income				
Other Income	25.1	20.7	29.5	38.8
Interest	4.2	6.1	4.3	2.5
PBDT	279.0	326.7	345.0	447.8
Depreciation	29.4	38.6	46.9	51.2
PBT before Exceptional Items	249.6	288.1	298.1	396.6
PBT	249.6	288.1	298.1	396.6
Total Tax	61.3	86.2	71.8	95.2
PAT	188.3	201.9	226.3	301.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	42.8	42.8	42.8	42.8
Reserve and Surplus	952.6	1168.3	1177.3	1324.1
Total Shareholders funds	995.5	1211.1	1220.2	1367.0
Total Debt	12.8	13.0	23.0	33.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Total Liability	1080.3	1315.6	1334.6	1491.4
Assets				
Total Gross Block	461.7	585.6	654.2	724.2
Less Total Accumulated Depr	180.9	219.6	266.5	317.7
Net Block	280.8	366.0	387.7	406.4
Total Fixed Assets	347.7	385.6	398.7	417.4
Inventory	479.0	631.5	638.5	765.9
Debtors	324.3	388.1	416.8	521.2
Loans and Advances	8.6	3.7	4.2	5.0
Cash	111.6	281.2	341.7	295.0
Total Current Assets	1028.2	1403.1	1535.8	1748.6
Creditors	305.1	474.7	532.1	585.0
Provisions	47.2	55.0	81.5	89.6
Total Current Liabilities	374.6	559.2	682.2	756.9
Net Current Assets	653.6	843.9	853.7	991.7
Total Assets	1080.3	1315.6	1334.6	1491.4

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	188.3	201.9	226.3	301.4
Depreciation	29.4	38.6	46.9	51.2
Cash Flow before working capital ch	221.8	246.6	277.5	355.2
Net Increase in Current Assets	6.7	-205.3	-72.2	-259.5
Net Increase in Current Liabilities	-74.9	184.7	123.0	74.8
Net cash flow from operating act	153.7	226.0	328.3	170.5
(Purchase)/Sale of Fixed Assets	-142.2	-76.6	-60.0	-70.0
Net Cash flow from Investing act	-30.1	-64.3	-56.2	-70.0
Inc / (Dec) in Equity Capital	0.1	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	0.0	0.0	0.0	0.0
Total Outflow on account of dividend	-46.2	-51.4	-103.1	-154.6
Net Cash flow from Financing act	-97.5	7.9	-211.5	-147.1
Net Cash flow	26.1	169.6	60.5	-46.7
Cash and Cash Equivalent at the beg.	85.5	111.6	281.2	341.7
Cash	111.6	281.2	341.7	295.0

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data (₹)				
EPS	4.4	4.7	5.3	7.0
Cash EPS	5.1	5.6	6.4	8.2
BV	23.3	28.3	28.5	31.9
DPS	1.1	1.2	2.4	3.6
Operating Ratios (%)				
EBITDA Margin	10.3	11.5	9.9	10.6
PAT Margin	7.5	7.4	7.0	7.8
Return Ratios (%)				
RoE	18.9	16.7	18.5	22.0
RoCE	25.1	23.9	24.2	28.4
RoIC	27.8	28.4	29.2	31.7
Valuation Ratios (x)				
EV / EBITDA	40.5	33.0	32.1	25.1
P/E	56.0	52.4	46.8	35.1
EV / Net Sales	4.2	3.8	3.2	2.7
Market Cap / Sales	4.2	3.9	3.3	2.7
Price to Book Value	10.6	8.7	8.7	7.7
Turnover Ratios (x)				
Asset turnover	2.5	2.2	2.6	2.8
Debtors Days	47.3	52.1	47.0	49.0
Creditors Days	44.5	63.7	60.0	55.0
Solvency Ratios (x)				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.4	2.0	1.8	1.9
Quick Ratio	1.2	0.9	0.8	0.9

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	₹	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,979	3,665	Buy	2,85,686	33.4	39.5	50.4	89.1	75.4	59.1	61.5	53.2	42.4	25.0	27.6	30.7	29.6	32.6	36.8
Astral Polytechnik (ASTPOL)	2,178	1,915	Hold	32,814	20.3	21.8	29.3	107.2	100.0	74.4	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	3,012	3,130	Buy	9,472	24.7	45.7	88.2	121.9	65.9	34.1	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,160	1,280	Buy	13,188	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	842	835	Hold	81,775	7.4	9.3	12.3	113.6	90.9	68.5	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	489	480	Buy	30,660	9.8	9.2	11.9	49.7	53.4	41.2	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	4,357	5,050	Buy	25,510	27.3	52.3	97.4	159.8	83.3	44.7	89.8	54.6	31.1	23.5	34.6	47.4	21.7	33.9	41.7
EPL (ESSPRO)	256	275	Hold	8,077	7.7	9.2	11.4	33.0	27.7	22.5	13.5	12.2	10.2	16.2	17.6	20.6	14.8	16.3	18.7
Havells India (HAVIND)	1,185	1,345	Buy	73,932	16.7	18.8	24.3	71.1	61.3	48.8	44.9	40.9	31.8	24.9	25.6	31.1	20.1	21.3	25.7
Kansai Nerolac (KANNER)	630	750	Buy	33,952	9.9	13.0	16.1	63.9	48.6	39.2	40.8	32.5	26.2	17.2	21.5	23.4	13.2	16.6	18.0
Moldtek Packaging (MOLP)	525	675	Buy	1,456	17.3	22.5	30.6	29.5	22.8	16.7	16.1	12.6	9.7	21.4	24.8	29.1	20.7	21.9	24.1
Pidilite Industries (PIDIND)	2,263	2,035	Hold	1,14,915	22.2	26.3	31.8	102.0	86.0	71.2	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,864	2,100	Hold	28,138	59.4	59.2	77.7	31.8	31.9	24.3	23.3	21.5	16.6	21.9	21.1	24.2	18.5	16.5	18.5
Supreme Indus (SUPIND)	2,117	2,450	Buy	26,892	77.0	64.1	75.9	27.3	32.8	27.6	20.2	23.0	18.8	33.1	25.1	25.9	30.9	23.4	23.5
Symphony (SYMLIM)	954	1,050	Hold	6,674	15.3	20.8	33.0	64.9	47.8	30.9	48.7	37.6	24.3	15.2	22.1	31.8	14.9	21.1	30.1
Time Techno (TIMTEC)	81	100	Buy	1,832	4.8	8.5	10.8	17.0	9.5	7.5	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	247	320	Buy	10,579	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,053	1,150	Buy	34,826	16.0	21.2	28.9	65.9	49.8	36.4	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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