

## Strong topline growth; Inventory loss drags margin

**About the stock:** V-Guard is among India's leading fast moving consumer electrical goods 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
- V-Guard has maintained strong return ratios with RoE and RoCE at ~17% and ~23%, respectively (three year's average)

**Q1FY23 Results:** Strong topline growth on a favourable base; inventory loss drags EBITDA margin

- V-guard reported strong revenue growth of ~80% YoY to ₹ 1018 crore on a favourable base. On a three-year basis, revenue grew at CAGR of 13% led by strong growth in the consumer durable segment
- The gross margin declined by 366 bps YoY due to inventory losses. EBITDA margin came in at 8.1% (flat YoY) supported by better operating leverage
- PAT increased 2.1x YoY to ₹ 53 crore; tracking higher sales

**What should investors do?** V-Guard's share price has given return of 26.5% in the past five years (from ~₹ 177 in July 2017 to ~₹ 224 levels in July 2022).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value V-Guard at ₹ 255 i.e. 38x P/E on FY24E EPS.

**Key triggers for future price performance:**

- Expansion in non-south regions (revenue contribution increased from 37% in FY18 to 41.7% in FY22) and government housing thrust (to build 1.3 crore new houses under PMAY) will be key growth driver for V-Guard
- New product launches in the consumer durable category
- Plan to increase in-house manufacturing from current 55% to 60%, which will help the company to improve profitability

**Alternate Stock Idea:** We like Polycab India in our coverage.

Polycab is the market leader in the wire & cable business with organised market share of 22%-24%. In the FMEG segment, it is growing through new product launches and dealer addition across India. Robust b/s with a 3-year average RoE, RoCE of 18%, 22%, respectively

- BUY with a target price of ₹ 2680



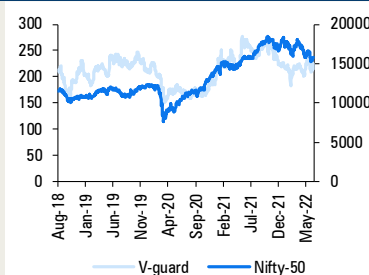
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	9,593.7
Total Debt (FY22) (₹ Crore)	11.8
Cash and Inv (FY22) (₹ Crore)	61.3
EV (₹ Crore)	9,544.2
52 week H/L	275 / 181
Equity capital (₹ Crore)	42.8
Face value (₹)	1.0

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	56.1	56.1	56.0	55.9	55.9
FII	14.5	14.3	14.3	12.7	12.4
DII	15.5	15.6	16.0	17.3	18.1
Others	13.9	14.0	13.8	14.1	13.6

### Price Chart



### Recent event & key risks

- Key Risk:** (i) Revival in the demand of its Electronic products segment (ii) Higher advertisement cost

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Years CAGR (FY17-22)	FY23E	FY24E	2 Years CAGR (FY22-24E)
Net Sales	2594.0	2502.9	2721.2	3498.2	10.9	4011.6	4379.3	11.9
EBITDA	224.3	258.0	312.1	338.2	10.1	356.1	442.0	14.3
EBITDA Margin (%)	8.6	10.3	11.5	9.7		8.9	10.1	
PAT	168.1	188.3	201.9	228.4	9.6	233.1	291.5	13.0
EPS (₹)	3.9	4.4	4.7	5.3		5.4	6.8	
P/E(x)	56.7	50.8	47.5	42.0		41.5	33.2	
Price /Book Value (x)	10.6	9.6	7.9	6.8		7.4	6.7	
EV/EBITDA (x)	42.1	36.7	29.9	28.2		26.9	21.5	
RoE (%)	18.7	18.9	16.7	16.2		17.9	20.3	
RoCE (%)	24.1	25.1	23.9	21.2		23.7	26.6	

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Consumer durable segment drives topline

- V-Guard's product portfolio is dominated by summer related products with 50-60% share. Favourable base and strong demand of V-guard's summer related products drove the company's overall sales in Q1FY23. V-guard reported revenue growth of 80% YoY to ₹ 1018 crore in Q1FY23; led by 2x growth in consumer durable segments to ₹ 299 crore. On a three-year basis, revenue grew at CAGR of 13% led by 25% CAGR in the consumer durable segment
- The Electronic segment (~30% of topline) grew 91% YoY to ~₹ 303 crore on a favourable base of Q1FY22 and recovery in stabiliser demand. However, on a three year CAGR basis, the revenue growth remained tepid at 3% due to slower offtake in digital UPS volumes. The Electrical segment (41% of topline) revenues increased by 62% led by wire & cable and modular switch segments, however pump demand remained weak due to sharp increase in product price.
- Geography wise, both south and non-south regions revenue increased ~68% and ~96% YoY to ₹ 536 crore and ₹ 474 crore, respectively
- The gross margins declined ~366 bps YoY to 30% mainly due to inventory losses in the wire segment. The company has incurred inventory losses of ₹ 10 crore in the month of June'22 due to sharp fall in the copper price. V-guard has taken price hike of ~3% to offset increase in other raw material costs. Despite lower gross margin, the EBITDA margin came in at 8.1% (Flat on a YoY basis) due to savings in employee costs and other costs

### Q1FY23 Earnings Conference Call highlights

#### Demand outlook:

- V-guard's stabilizers category is a largely matured with ~45% organized market share. Hence the growth for stabilizers will be limited to the category growth and market share gains from unorganized segments
- The Digital UPS industry is pegged at ₹ 12000 crore with V-guard's market share of ~3% in the organized segments. The company aims to gain market share in future through capacity additions
- V-Guard has completed the balance 26% acquisition of a company that manufactures switchgears to support the growth of its switchgears business and meet the supply. The management expects its switch and switchgears category to grow higher than the overall topline growth supported by new product launches and dealer expansion
- The 50% of Fan revenue is from premium product range. The company will focus on gaining market share through expansion in non-south regions
- In the water heaters segment, the company lost some market share in FY21 which it regained in FY22 and now the company is trying to build on the market share for water heaters in FY23
- The pumps business of the company has been adversely impacted by higher input prices. The company is yet to pass on some price increases for this segment. However, with prices of commodities like iron, steel and copper coming down, the management expects a rise in the volumes of pumps
- The company has a limited presence in the Built-in Kitchen category with products such as chimney and hobs. The distribution largely happens through e-com platform
- The management has reiterated its long term volume growth target at 15%
- The company has targeted to add ~4000 retailers every year

#### Margins:

- The company has taken ~2.5% price hike in Q1FY23
- The EBITDA margin has been affected by significant drop in copper prices and the management expects to see some impact in Q2FY23 as well. In June'22, the company wrote of ~₹10 crore as a result of drop in copper prices which affected the Q1FY23 EBITDA margin by 1%

- The management expects the gross margin to normalize to pre-covid level at ~32% by Q3FY23 when they will be able to take the advantage of lower raw material prices

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Havells	77,239	10428	13889	15982	18205	15	13	11	12	1040	1195	1212	1569	25	24	25	31	20	20	21	27	74	65	64	49
Crompton Greaves	24,445	4804	5394	7227	8185	15	14	13	13	617	578	524	658	34	16	16	20	32	24	20	23	40	42	47	37
Bajaj Electrical	13,013	4585	4813	5442	6152	7	5	6	7	189	124	253	339	15	14	19	22	11	8	15	17	69	105	52	38
Polycab	34,402	8792	12204	13528	15170	13	10	11	11	886	917	1003	1160	21	20	22	22	18	16	17	17	39	38	34	30
Symphony	6,639	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	62	55	36	27
V guard	9,667	2721	3498	4012	4379	11	10	9	10	202	228	233	292	24	21	24	27	17	16	18	20	48	42	41	33
Voltas	32,842	7556	7934	9708	10895	8	9	9	11	529	506	694	957	15	14	18	21	11	9	14	17	62	65	47	34

Source: Company, ICICI Direct Research

V-guard has reported a strong revenue CAGR of 13% in the last three years led by 25% CAGR in the consumer durable segment led by supported by new product launches and dealer expansions. Consumer durable sales contribution has increased from 27% to 30% during the same period. The Electricals segment (~40% of sales) grew at CAGR of ~15% led by wire segment. However, Electronic segment revenue (30% of sales) growth remain tepid at 3% CAGR due to supply disruption in the stabiliser segments and lower offtake of its digital UPS products. Going forward we build in revenue CAGR of 12% over FY22-24E led by 15% growth in each Electronics and Consumer durable segments factoring in new product launches and dealer expansions. The Electricals sales CAGR of 8% over FY22-24E will be mainly driven by volume growth in the wire segment. On the margin front, positive impact of easing raw material prices and price hikes will start flowing from H2FY23 which will help drive EBTDA margin recovery. PAT is likely to grow at CAGR of 13% in FY22-24E tracking higher sales growth and recovery in EBITDA margin. We believe Consumer Durable segment margin revival (1.3% in Q1FY23; 4.7% in FY22) will be a factor to watch for further re-rating on the stock. Hence, we maintain our HOLD rating on the stock valuing the stock at ₹ 255/share (38x FY24E, ~30% discount to Havells).

**Exhibit 2: Variance Analysis**

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comment
Revenue	1,018.3	842.2	565.2	80.2	1,058.2	-3.8	Favourable base and strong demand summer related products drive topline growth
Other Income	5.1	5.1	3.9	32.1	3.6	40.5	
Raw Material Exp	712.9	576.0	375.0	90.1	749.9	-4.9	Gross margin declined ~366 bps YoY due to inventory losses in the wire segment
Employee Exp	78.9	67.4	58.1	35.8	65.2	21.0	
Advertisement Exp	21.4	18.5	14.1	51.3	12.7	68.4	
Other Exp	123.2	101.1	72.5	69.8	119.4	3.2	
EBITDA	82.0	79.2	45.5	80.2	111.0	-26.1	
EBITDA Margin (%)	8.1	9.4	8.1	0 bps	10.5	-244 bps	Savings in employee cost and other expenses offset the negative impact of inventory losses in Q1FY23
Depreciation	13.7	13.6	11.3	21.6	12.9	5.9	
Interest	1.8	0.3	1.5	16.8	1.8	2.3	
PBT	71.7	70.3	36.6	95.8	100.0	-28.3	
Total Tax	18.3	17.6	11.1	65.4	10.4	75.7	
PAT	53.4	52.7	25.5	109.0	89.6	-40.4	PAT growth is largely tracking strong sales growth in Q1FY23
<b>Key Metrics</b>							
Electronics	303.4	317.8	159.0	90.8	247.1	22.8	Favourable base and strong summer demand drive sales of stabiliser segment revenue
Electricals	415.9	327.3	256.5	62.1	515.2	-19.3	sharp price hikes helped drive revenue growth in electricals segments
Consumer Durable	299.1	197.1	149.7	99.7	295.9	1.1	Favourable base, strong growth in the fan and small kitchen appliances segment drives topline
Gross Margin	30.0	31.6	33.7	-366 bps	29.1	86 bps	

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	%chg	Old	New	%chg	
Revenue	4,050.1	4011.6	(0.9)	4439.9	4379.3		We have slightly cut our revenue estimates for FY23E-24E dragged by (1.4) lower realisation in the electrical segment (due to passing of lower commodity prices). We model revenue CAGR of 12% over FY22-24E
EBITDA	360.5	356.1	(1.2)	440.9	442.0	0.2	
EBITDA Mar %	8.9	8.9	-2bps	9.9	10.1	19bps	We have maintained our EBITDA margin estimate considering price hike and cooling of raw materials from its peak
PAT	234.9	233.1	(0.8)	286.2	291.5	1.9	
EPS (₹)	5.4	5.4	0.0	6.6	6.8	2.3	

Source: ICICI Direct Research

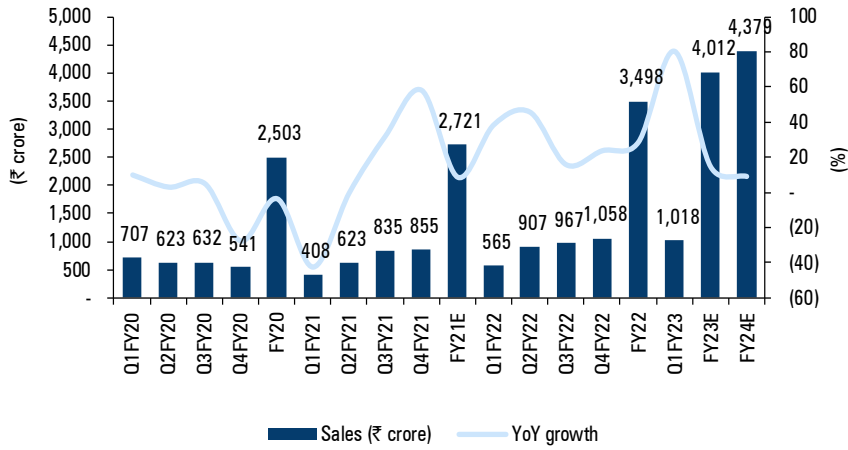
**Exhibit 4: Assumptions**

	Current					Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Electronics Growth	-0.7	0.6	7.4	23.4	7.5	18.6	11.8	Recovery in demand of cooling products will drive demand of stabilisers while UPS segment sales will be driven by new launches and capacity expansion
Electricals Growth	-7.1	14.1	32.1	7.2	8.9	15.0	10.3	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	9.2	44.4	19.4	10.9	14.0	11.0	Favourable base and new product launches (water purifier, breakfast appliances, and kitchen hobs and Chimneys) will drive segment revenue

Source: ICICI Direct Research

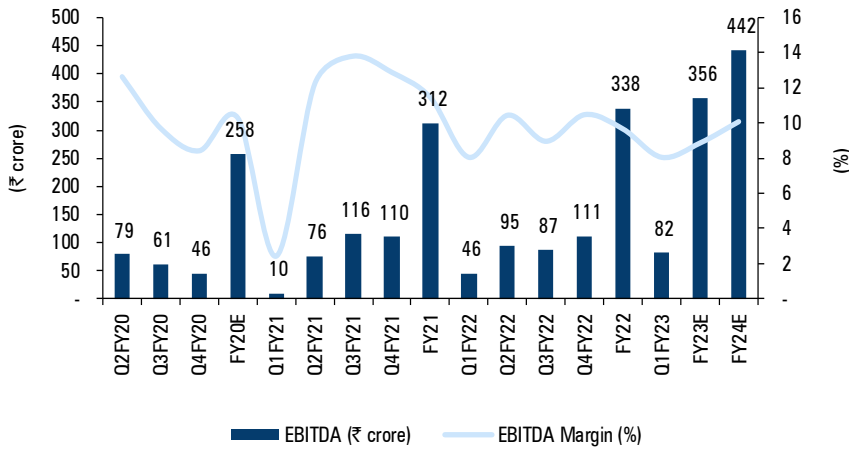
## Financial story in charts

Exhibit 5: Revenue growth trend



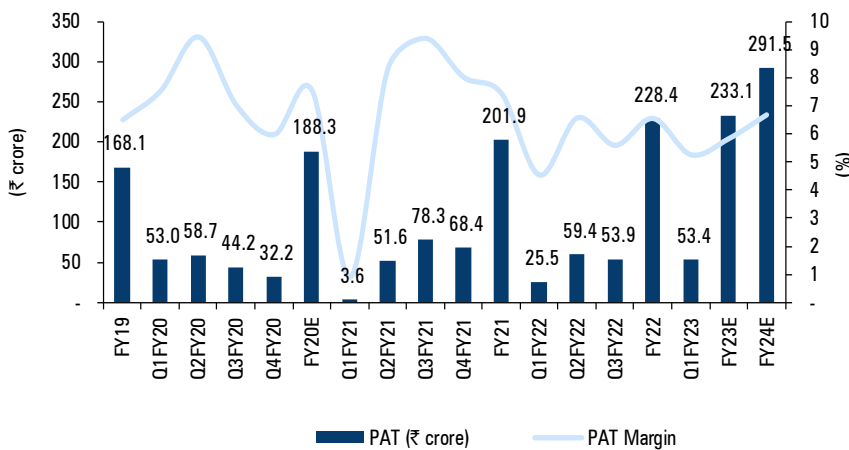
Source: Company, ICICI Direct Research

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)	FY21	FY22	FY23E	FY24E
Net Sales	2721.2	3498.2	4011.6	4379.3
Growth (%)	4.9	28.6	14.7	9.2
Expenses				
Raw Material Expenses	1852.5	2413.9	2768.0	2956.1
stock				
Employee Expenses	226.6	270.0	312.9	341.6
Administrative Expenses	305.5	424.0	481.4	534.3
Total Operating Expenditure	2409.1	3160.0	3655.6	3937.4
EBITDA	312.1	338.2	356.1	442.0
Growth (%)	39.1	8.4	5.3	24.1
Other Income	20.7	12.8	15.5	18.0
Interest	6.1	7.9	3.0	2.4
PBDT	326.7	343.1	368.6	457.6
Depreciation	38.6	49.1	57.0	67.9
PBT before Exceptional Items	288.1	294.0	311.6	389.7
PBT	288.1	294.0	311.6	389.7
Total Tax	86.2	65.5	78.5	98.2
PAT	201.9	228.4	233.1	291.5

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	201.9	228.4	233.1	291.5
Depreciation	38.6	49.1	57.0	67.9
Cash Flow before working capital ch	246.6	285.5	293.1	361.8
Net Increase in Current Assets	-205.3	-338.4	-48.8	-138.3
Net Increase in Current Liabilities	184.7	58.8	141.3	69.6
Net cash flow from operating act	226.0	5.9	385.6	293.1
(Purchase)/Sale of Fixed Assets	-76.6	-139.8	-70.0	-70.0
Net Cash flow from Investing act	-64.3	-184.1	-60.9	-70.0
Inc / (Dec) in Equity Capital	0.0	0.3	0.0	0.0
Inc / (Dec) in Loan Funds	0.0	0.0	0.0	0.0
Total Outflow on account of dividend	-51.4	-103.1	-155.8	-155.8
Net Cash flow from Financing act	7.9	-41.7	-333.1	-148.2
Net Cash flow	169.6	-219.9	-8.4	74.9
Cash and Cash Equivalent at the beg.	111.6	281.2	61.3	52.9
Cash	281.2	61.3	52.9	127.7

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	42.8	43.2	43.2	43.2
Reserve and Surplus	1168.3	1363.8	1256.8	1392.5
Total Shareholders funds	1211.1	1407.0	1300.0	1435.7
Total Debt	13.0	11.8	21.8	31.8
Deferred Tax Liability	0.0	0.0	0.0	0.0
Total Liability	1080.3	1315.6	1478.6	1381.6
Assets				
Total Gross Block	585.6	734.0	804.0	874.0
Less Total Accumulated Depreci	219.6	268.7	325.7	393.5
Net Block	366.0	465.3	478.3	480.4
Total Fixed Assets	385.6	476.3	489.3	491.4
Inventory	631.5	859.6	824.3	899.9
Debtors	388.1	484.1	549.5	599.9
Loans and Advances	3.7	3.2	5.2	5.7
Cash	281.2	61.3	52.9	127.7
Total Current Assets	1403.1	1521.6	1562.0	1775.2
Creditors	474.7	488.0	604.5	659.9
Provisions	55.0	61.9	76.6	83.7
Total Current Liabilities	559.2	618.0	759.3	828.9
Net Current Assets	843.9	903.6	802.6	946.2
Total Assets	1080.3	1315.6	1478.6	1381.6

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS	4.7	5.3	5.4	6.8
Cash EPS	5.6	6.5	6.7	8.3
BV	28.3	32.9	30.1	33.3
DPS	1.2	2.4	3.6	3.6
Operating Ratios (%)				
EBITDA Margin	11.5	9.7	8.9	10.1
PAT Margin	7.4	6.5	5.8	6.7
Return Ratios (%)				
RoE	16.7	16.2	17.9	20.3
RoCE	23.9	21.2	23.7	26.6
RoC	28.4	21.6	23.7	28.1
Valuation Ratios (x)				
EV / EBITDA	29.9	28.2	26.9	21.5
P/E	47.5	42.0	41.5	33.2
EV / Net Sales	3.4	2.7	2.4	2.2
Market Cap / Sales	3.5	2.7	2.4	2.2
Price to Book Value	7.9	6.8	7.4	6.7
Turnover Ratios (x)				
Asset turnover	2.2	2.5	3.0	3.0
Debtors Days	52.1	50.5	50.0	50.0
Creditors Days	63.7	50.9	55.0	55.0
Solvency Ratios (x)				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.0	2.4	2.0	2.0
Quick Ratio	0.9	1.0	0.9	0.9

Source: Company, ICICI Direct Research

**Exhibit 12: ICICI Direct Consumer Discretionary universe**

Sector / Company	Rating	M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)			
		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	3,16,374	33.4	32.2	47.1	56.6	98.7	102.6	70.0	58.3	64.2	65.3	46.6	39.3	29.6	27.1	36.4	39.1	25.0	23.0	30.2	31.9
Berger Paints (BERPAI)	Hold	60,123	7.4	8.6	9.9	11.9	83.5	72.2	62.6	52.2	50.4	45.4	39.9	33.7	24.9	23.3	27.9	30.4	21.3	21.2	25.2	27.0
Kansai Nerolac (KANNER)	Reduce	21,826	9.8	6.9	9.7	12.1	41.1	58.3	41.6	33.5	25.9	33.6	25.9	21.4	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6
Pidilite Industries (PIDIND)	Hold	1,22,938	22.2	23.8	26.0	32.2	109.2	101.9	93.2	75.2	72.9	66.4	62.0	50.4	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4
Bajaj Electricals (BAJELE)	Hold	13,013	16.5	10.8	22.0	29.5	68.7	104.6	51.5	38.4	43.7	51.6	38.5	29.2	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	Hold	24,445	9.8	9.2	8.4	10.5	39.6	42.3	46.6	37.1	32.4	31.9	28.4	23.5	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6
Havells India (HAVIND)	Hold	77,239	16.7	19.1	19.4	25.1	74.3	64.6	63.7	49.2	48.6	42.7	43.0	34.0	24.9	23.7	24.6	31.4	20.1	19.9	20.9	26.6
Polycab India (POLI)	Buy	34,402	59.3	61.4	67.1	77.6	38.8	37.5	34.3	29.7	30.1	26.3	22.5	19.4	20.6	20.2	21.8	22.1	17.9	15.6	16.5	16.7
Symphony (SYMLIM)	Hold	6,639	15.3	17.3	26.1	34.8	62.0	54.9	36.3	27.3	46.5	40.1	27.9	21.1	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	9,667	4.7	5.3	5.4	6.8	47.5	42.0	41.5	33.2	30.1	28.4	27.1	21.7	23.9	21.2	23.7	26.6	16.7	16.2	17.9	20.3
Voltas Ltd (VOLTAS)	Hold	32,842	16.0	15.3	21.0	28.9	62.1	64.9	47.3	34.3	50.5	47.2	39.2	27.9	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6
Amber Enterprises (AMBEN)	Hold	8,339	24.7	33.0	60.4	86.2	100.1	74.9	41.0	28.7	37.6	31.6	22.8	17.0	7.7	6.8	10.5	13.4	5.2	6.4	11.2	13.8
Dixon Technologies (DIXTEC)	Buy	21,752	27.3	32.1	55.4	83.6	134.4	114.3	66.1	43.8	75.9	57.7	37.5	26.7	23.5	17.7	27.0	31.4	21.7	19.1	30.9	34.1
Supreme Indus (SUPIND)	Buy	24,249	77.0	76.2	77.1	87.0	24.8	25.0	24.8	22.0	18.3	19.1	19.2	16.6	33.1	25.9	24.2	24.9	30.9	25.2	23.9	24.1
Astral Ltd (ASTPOL)	Hold	36,460	20.3	24.4	28.8	35.1	89.3	74.3	63.0	51.7	55.9	47.5	40.6	33.8	27.5	26.6	27.3	28.5	21.5	21.0	21.4	22.3
Time Techno (TIMTEC)	Hold	2,352	4.8	8.5	10.0	12.4	21.8	12.2	10.4	8.4	7.6	6.1	5.2	4.5	8.7	11.3	12.8	14.1	5.7	9.3	10.6	11.9

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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