

High-cost inventory dents 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)

Q2FY23 Results: Favourable base drove topline growth. Inventory losses dragged margins.

- Revenue growth was reported at 8.7% YoY to ₹ 986.1 crore on a favourable base and strong growth in the consumer durable segment. On a three-year basis, revenue grew at 16.5% CAGR led by strong growth in the consumer durable segment
- Gross margin declined 210 bps YoY due to inventory losses in the wire segment. EBITDA margin declined 308 bps YoY to 7.4% due to lower gross margin and increased ad-spend
- PAT fell 26.5% YoY to ₹ 43.7 crore as a result of sharp decline in EBITDA

What should investors do? V-Guard's share price has given return of ~19% in the past five years (from ~₹ 214 in October 2017 to ~₹ 253 levels in October 2022).

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

Target Price and Valuation: We value V-Guard at ₹ 285 i.e. 40x 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 three-year average RoE, RoCE of 18%, 22%, respectively
- BUY with a target price of ₹ 3300



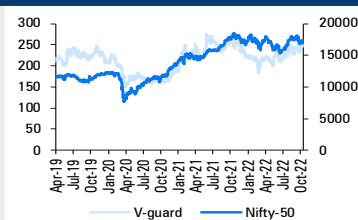
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	10,835.7
Total Debt (FY22) (₹ Crore)	11.8
Cash and Inv (FY22) (₹ Crore)	61.3
EV (₹ Crore)	10,786.2
52 week H/L	265 / 181
Equity capital (₹ Crore)	42.8
Face value (₹)	1.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	56.1	56.0	55.9	55.9	55.9
FII	14.3	14.3	12.7	12.4	12.9
DII	15.6	16.0	17.3	18.1	18.1
Others	14.0	13.8	14.1	13.6	13.1

Price Chart



Recent event & key risks

- Key Risk:** (i) Demand revival in 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	4186.1	4603.8	14.7
EBITDA	224.3	258.0	312.1	338.2	10.1	352.5	464.4	17.2
EBITDA Margin (%)	8.6	10.3	11.5	9.7		8.4	10.1	
PAT	168.1	188.3	201.9	228.4	9.6	229.3	306.3	15.8
EPS (₹)	3.9	4.4	4.7	5.3		5.3	7.1	
P/E(x)	64.1	57.4	53.7	47.4		47.6	35.6	
Price /Book Value (x)	12.0	10.9	8.9	7.7		8.4	7.5	
EV/EBITDA (x)	47.6	41.5	33.9	31.9		30.7	23.2	
RoE (%)	18.7	18.9	16.7	16.2		17.7	21.2	
RoCE (%)	24.1	25.1	23.9	21.2		23.4	27.8	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Consumer durable segment drives topline, price reductions in wires dents margins

- In Q2FY23, V-Guard's revenue grew 8.7% YoY to ₹ 986.1 crore on a favourable base and strong revenue growth in the consumer durable (CD) segment. On a three-year basis, revenue grew at CAGR of 16.5% led by 24% CAGR in the CD revenue
- The electronic segment (~23% of topline) grew 8.7% YoY to ~₹ 227.4 crore on a favourable base of Q2FY22 and dealer additions. The electrical segment (42% of topline) revenues remained flat on a YoY basis at ~₹ 422 crore due to price reductions in wire category. The CD segment (35% of topline) grew at a higher rate of ~21% YoY to ₹ 337.2 crore led by growth in small appliances, fans and geysers over same period last year
- Geography wise, revenue from non-south region grew at a higher pace of ~17.8% YoY to ₹ 419.1 crore vs. 2.6% YoY growth in south regions
- Gross margin declined ~210 bps YoY to 29.2% mainly due to inventory losses in the wire segment. As a result of lower gross margin and increase in advertisement expenditure, EBITDA margin declined 308 bps YoY to 7.4%

Q2FY23 Earnings Conference Call highlights

Demand outlook:

- Demand is likely to be subdued in Q3FY23 as the company is facing some stress in demand for its entry level products. The management expects demand recovery to start from Q4FY23 onwards supported by fresh inventory build-up and revival in the rural demand
- V-Guard's kitchen appliances segment is concentrated in the south region and is growing at a faster pace. A manufacturing facility is being put up for the same, which is likely to be completed in the coming 12 months
- Total 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. Now the company is trying to build on the market share for water heaters in FY23
- The company plans to add ~5000 to 6000 retail outlets every year in non-south regions and is aiming to improve its presence in the organised segment

Margins

- The company has not taken any price hikes in Q2FY23
- The EBITDA margin has been affected by a significant drop in copper prices, which impacted the Q2FY23 EBITDA margin by ~1.5%
- The management expects the gross margin to normalise to pre-Covid level at ~32% by Q3FY23 when they will be able to take the advantage of lower raw material prices
- V-Guard will be taking price hikes in the range of 5-8% for its new models of fans post transition to BEE norms

Capex:

- The company has envisaged a capex of ~₹ 70 crore for FY23 and currently has three plants under construction, which are likely to be operational after the next 18 months

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	74,217	10428	13889	16233	18585	15	13	10	13	1040	1195	1105	1694	25	24	23	34	20	20	19	29	71	62	67	44
Crompton Greaves	22,126	4804	5394	7269	8232	15	14	13	13	617	578	559	697	34	16	17	20	32	24	22	23	36	38	40	32
Bajaj Electrical	13,300	4585	4813	5537	6269	7	5	7	8	189	124	242	364	15	14	20	24	11	8	14	18	70	107	55	37
Polycab	41,157	8792	12204	14054	15759	13	10	12	12	886	917	1141	1298	21	20	25	24	18	16	18	18	46	45	36	32
Symphony	5,918	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	55	49	32	24
V guard	10,836	2721	3498	4186	4604	11	10	8	10	202	228	229	306	24	21	23	28	17	16	18	21	54	47	48	36
Voltas	28,774	7556	7934	9816	11403	8	9	8	10	529	506	623	829	15	14	18	20	11	9	13	15	54	57	46	35

Source: Company, ICICI Direct Research

V-Guard’s consumer durable (CD) segment (~35% of sales) reported strong revenue growth of 21% YoY to ₹ 337 crore in Q2FY23 led by new product launches and dealer expansion. Over the last three years, the CD segment revenue grew at a 24% CAGR, better than the 17% CAGR of consolidated revenue. The electricals segment (~42% of sales) grew at CAGR of ~15% led by price led growth of wire segment. However, electronic segment revenue (23% of sales) growth at 11% CAGR was impacted due to supply disruption in the stabiliser and lower offtake of its digital UPS product. Going forward, we build in revenue CAGR of 15% over FY22-24E led by ~18% and ~17% growth in each electronics and CD segments factoring in favourable base, new product launches and dealer expansions. On the margin front, easing of raw material prices and improved operating leverage will lead to improvement in H2FY23 EBITDA margin from 7.7% of H1FY23 EBITDA. We build in EBITDA margin of 8.4% and 10.1% for FY23E and FY24E, respectively. PAT is likely to grow at CAGR of ~16% in FY22-24E tracking higher sales growth and recovery in EBITDA margin. We believe CD segment margin revival (2.3% in H1FY23) will be a factor to watch for further re-rating on the stock. Hence, we maintain our HOLD rating on the stock with a revised target price of ₹ 285/share (40x FY24E, ~30% discount to Havells).

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comment
Revenue	986.1	907.4	8.7	1,018.3	-3.2	Dealer expansion, favourable base drove overall sales growth in Q2
Other Income	3.3	2.6	27.9	5.1	-35.8	
Raw Material Exp	697.7	623.0	12.0	712.9	-2.1	Inventory losses in the wire segment and change in product mix led to fall in gross margin by 210 bps YoY
Employee Exp	66.3	71.2	-7.0	78.9	(16.0)	
Advertisement Exp	21.7	13.6	59.4	21.4	1.5	
Other Exp	127.7	104.7	22.0	123.2	3.7	
EBITDA	72.7	94.9	-23.4	82.0	-11.3	
EBITDA Margin (%)	7.4	10.5	-308 bps	8.1	-68 bps	Lower gross margin and higher advertisement expenses on a YoY basis dragged overall EBITDA margin down by 308 bps YoY
Depreciation	15.0	11.2	34.1	13.7	9.5	
Interest	1.9	3.1	-40.1	1.8	3.0	
PBT	59.2	83.2	-28.9	71.7	-17.4	
Total Tax	15.5	23.8	-34.9	18.3	-15.3	
PAT	43.7	59.4	-26.5	53.4	-18.2	Lower PAT is attributable to sharp decline in EBITDA margin
Key Metrics						
Electronics	227.4	209.2	8.7	303.4	-25.1	Favourable base and dealer expansions helped drive segment revenue
Electricals	421.6	418.8	0.7	415.9	1.4	Flattish sales is attributable to price reduction in the wire category
Consumer Durable	337.2	279.4	20.7	299.1	12.7	Favourable base, dealer additions and strong growth in small appliances segment drives segment revenue

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	%chg	Old	New	%chg	
Revenue	4,011.6	4186.1	4.4	4379.3	4603.8	5.1	We revise our revenue estimates upward for FY23E-24E led by new product launches and dealer expansion in newer geographies. We model revenue CAGR of 15% over FY22-24E
EBITDA	356.1	352.5	(1.0)	442.0	464.4	5.1	
EBITDA Margin %	8.9	8.4	-48bps	10.1	10.1	-1bps	We adjust our FY23E EBITDA margin estimates considering Q2FY23 performance. We believe EBITDA margin will improve from FY24E onwards supported by cooling of raw materials prices and improved operating leverage
PAT	233.1	229.3	(1.6)	291.5	306.3	5.1	
EPS (₹)	5.4	5.3	(1.6)	6.8	7.1	5.1	

Source: ICICI Direct Research

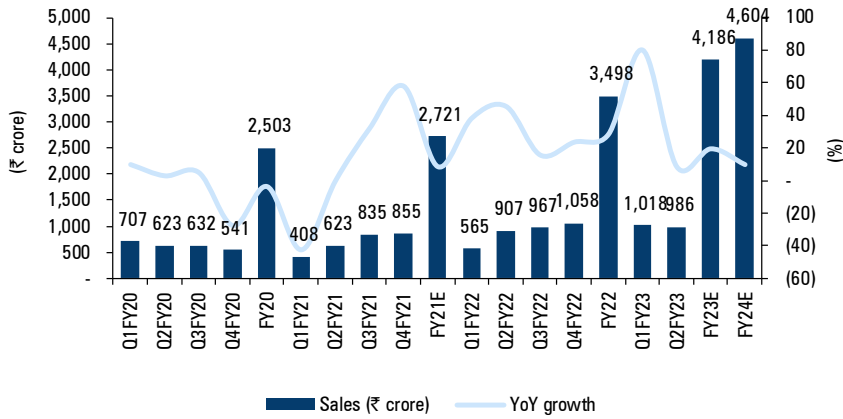
Exhibit 4: Assumptions

	Current				Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Electronics Growth	-0.7	0.6	7.4	25.3	10.7	23.4	7.5	We build in segment revenue CAGR of 18% over FY22-24E supported by favourable base and dealer expansion in the new geographies
Electricals Growth	-7.1	14.1	32.1	15.0	8.9	7.2	8.9	We believe lower commodity prices will help demand recovery in the wire and pump segment. We model segment revenue CAGR of 12% over FY22-24E
Cons. Durable Growth	-0.5	9.2	44.4	22.4	10.9	19.4	10.9	Favourable base and new product launches (water purifier, breakfast appliances, and kitchen hobs and Chimneys) to drive segment revenue

Source: ICICI Direct Research

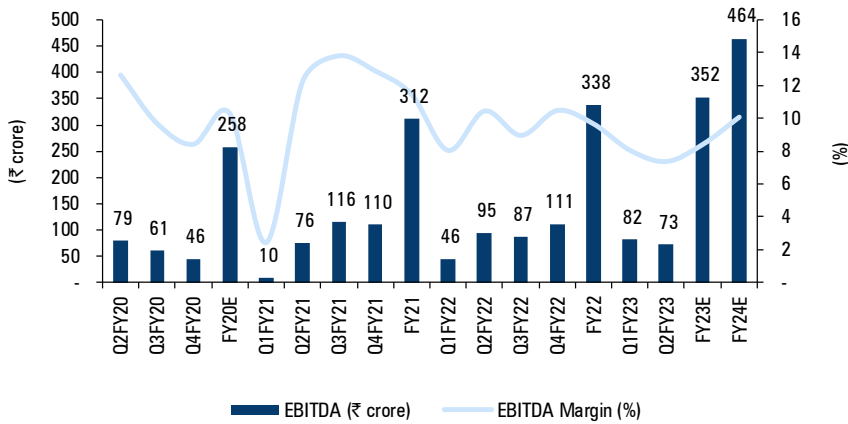
Financial story in charts

Exhibit 5: Revenue growth trend



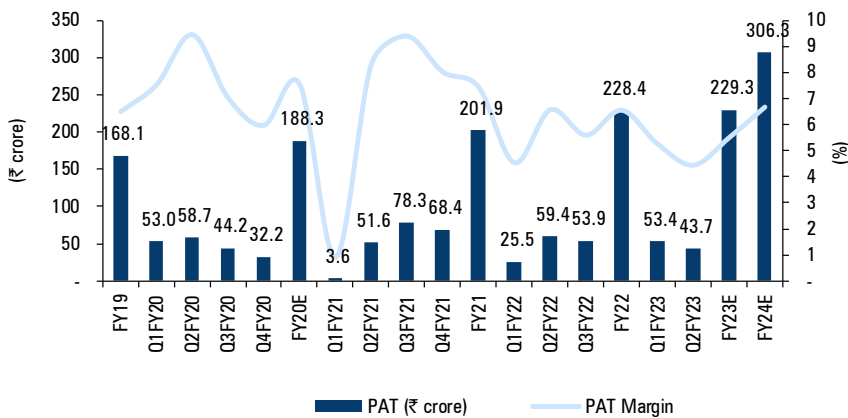
Source: Company, ICICI Direct Research

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	4186.1	4603.8
Growth (%)	4.9	28.6	19.7	10.0
Expenses				
Raw Material Expenses	1852.5	2413.9	2909.3	3107.6
Employee Expenses	226.6	270.0	326.5	359.1
Administrative Expenses	305.5	424.0	502.3	561.7
Total Operating Expenditure	2409.1	3160.0	3833.6	4139.4
EBITDA	312.1	338.2	352.5	464.4
Growth (%)	39.1	8.4	4.2	31.7
Other Income	20.7	12.8	16.6	18.9
Interest	6.1	7.9	3.0	2.4
PBDT	326.7	343.1	366.0	480.8
Depreciation	38.6	49.1	59.4	71.4
PBT before Exceptional Items	288.1	294.0	306.6	409.4
PBT	288.1	294.0	306.6	409.4
Total Tax	86.2	65.5	77.3	103.2
PAT	201.9	228.4	229.3	306.3

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	229.3	306.3
Depreciation	38.6	49.1	59.4	71.4
Cash Flow before working capital ch	246.6	285.5	291.8	380.0
Net Increase in Current Assets	-205.3	-338.4	-114.4	-157.1
Net Increase in Current Liabilities	184.7	58.8	174.3	79.1
Net cash flow from operating act	226.0	5.9	351.7	302.0
(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	-42.3	83.8
Cash and Cash Equivalent at the beg.	111.6	281.2	61.3	19.0
Cash	281.2	61.3	19.0	102.7

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	1253.1	1403.5
Total Shareholders funds	1211.1	1407.0	1296.2	1446.7
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	1377.9
Assets				
Total Gross Block	585.6	734.0	804.0	874.0
Less Total Accumulated Depreci	219.6	268.7	328.1	399.5
Net Block	366.0	465.3	475.8	474.5
Total Fixed Assets	385.6	476.3	486.8	485.5
Inventory	631.5	859.6	860.2	946.0
Debtors	388.1	484.1	573.4	630.7
Loans and Advances	3.7	3.2	5.4	6.0
Cash	281.2	61.3	19.0	102.7
Total Current Assets	1403.1	1521.6	1593.7	1834.6
Creditors	474.7	488.0	630.8	693.7
Provisions	55.0	61.9	80.0	87.9
Total Current Liabilities	559.2	618.0	792.4	871.4
Net Current Assets	843.9	903.6	801.4	963.2
Total Assets	1080.3	1315.6	1478.6	1377.9

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS	4.7	5.3	5.3	7.1
Cash EPS	5.6	6.5	6.7	8.8
BV	28.3	32.9	30.0	33.5
DPS	1.2	2.4	3.6	3.6
Operating Ratios (%)				
EBITDA Margin	11.5	9.7	8.4	10.1
PAT Margin	7.4	6.5	5.5	6.7
Return Ratios (%)				
RoE	16.7	16.2	17.7	21.2
RoCE	23.9	21.2	23.4	27.8
RoIC	28.4	21.6	22.7	28.7
Valuation Ratios (x)				
EV / EBITDA	33.9	31.9	30.7	23.2
P/E	53.7	47.4	47.6	35.6
EV / Net Sales	3.9	3.1	2.6	2.3
Market Cap / Sales	4.0	3.1	2.6	2.4
Price to Book Value	8.9	7.7	8.4	7.5
Turnover Ratios (x)				
Asset turnover	2.2	2.5	3.2	3.1
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	CMP (₹)	TP(₹)	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)	3,054	3,685	Buy	2,92,879	33.4	32.2	40.8	54.2	91.3	94.9	74.8	56.4	59.4	60.4	49.8	38.3	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1	
Berger Paints (BERPAI)	575	740	Hold	55,850	7.4	8.6	9.9	12.3	77.6	67.0	58.0	46.7	46.8	42.2	37.0	30.4	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7	
Kansai Nerolac (KANNER)	478	560	Hold	25,760	9.8	6.9	11.6	13.4	48.6	68.8	41.3	35.7	30.5	39.7	25.7	22.0	17.2	12.1	19.5	21.1	13.2	9.2	14.7	15.6	
Pidlite Industries (PIDIND)	2,562	3,010	Hold	1,30,098	22.2	23.8	27.8	39.9	115.5	107.8	92.1	64.2	77.2	70.3	61.5	43.8	23.8	22.2	23.9	30.0	20.2	18.8	20.2	25.0	
Sheela Foam (SHEFOA)	2,762	3,650	BUY	13,473	48.7	44.5	51.8	65.9	56.7	62.0	53.3	41.9	37.3	43.4	37.1	29.4	24.3	18.0	19.6	22.6	20.1	15.6	16.4	18.8	
Bajaj Electricals (BAJELE)	1,158	1,340	BUY	13,300	16.5	10.8	21.0	31.7	70.2	106.9	55.1	36.6	44.7	52.8	36.3	25.4	15.1	13.5	19.6	24.2	10.7	7.8	14.4	18.3	
Crompton Greaves(CROGR)	353	415	Hold	22,126	9.8	9.2	8.9	11.1	35.9	38.3	39.6	31.8	29.2	28.8	25.5	21.2	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4	
Havells India (HAVIND)	1,185	1,565	Buy	74,217	16.7	19.1	17.6	27.1	71.1	62.1	67.1	43.8	46.6	41.0	44.7	30.4	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7	
Polycab India (POLI)	2,754	3,300	Buy	41,157	59.3	61.4	76.3	86.8	46.5	44.9	36.1	31.7	36.2	31.7	23.1	20.4	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0	
Symphony (SYMLIM)	846	1,215	Hold	5,918	15.3	17.3	26.1	34.8	55.3	48.9	32.4	24.3	41.3	35.6	24.9	18.7	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4	
V-Guard Ind (VGUARD)	253	285	Hold	10,836	4.7	5.3	5.3	7.1	53.7	47.4	47.6	35.6	33.9	31.9	30.7	23.2	23.9	21.2	23.4	27.8	16.7	16.2	17.7	21.2	
Voltas Ltd (VOLTAS)	870	1,075	Hold	28,774	16.0	15.3	18.8	25.1	54.4	56.9	46.2	34.7	44.2	41.2	34.2	26.0	15.0	14.0	17.5	20.3	10.6	9.2	12.6	14.9	
Amber Enterprises (AMBEN)	2,079	2,395	Hold	7,005	24.7	33.0	45.7	73.7	84.1	62.9	45.5	28.2	31.6	26.7	21.0	15.5	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3	
Dixon Technologies (DIXTEC)	4,385	4,730	Buy	26,025	27.3	32.1	57.9	85.4	160.8	136.7	75.7	51.4	90.8	69.0	42.6	31.1	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2	
Supreme Indus (SUPIND)	2,020	2,510	Buy	25,659	77.0	76.2	78.1	89.0	26.2	26.5	25.8	22.7	19.4	20.2	20.0	17.1	33.1	25.9	24.6	25.4	30.9	25.2	24.2	24.4	
Astral Ltd (ASTPOL)	1,962	2,650	Hold	39,413	20.3	24.4	25.8	35.9	96.6	80.4	76.2	54.6	60.5	51.4	45.4	34.5	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1	
Time Techno (TIMTEC)	100	125	BUY	2,261	4.8	8.5	10.1	13.1	21.0	11.8	9.9	7.7	7.4	5.9	5.1	4.3	8.7	11.3	12.8	14.6	5.7	9.3	10.7	12.5	
Moldtek Packaging (MOLPLA)	910	935	Hold	3,026	17.2	20.4	24.3	30.9	53.0	44.7	37.5	29.5	33.0	25.4	21.3	17.2	20.1	18.6	26.1	26.5	18.7	13.9	22.6	22.8	

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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