

High RM cost drags EBITDA 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 ~18% and ~24%, respectively (three year's average)

Q4FY22 Results: Electricals and consumer durable segments drive topline growth but higher raw material costs drag EBITDA margins

- Revenue growth of ~24% YoY to ₹ 1058 crore in Q4 was led by 33% & 32% growth in electrical and consumer durable segments, respectively
- EBITDA margin declined 242 bps YoY to 10.5% due to higher RM costs
- Lower EBITDA margin resulted in flattish PBT of ~₹ 10 crore in Q4. However, PAT was up by 31% YoY to ~₹ 90 crore supported by lower tax outgo

What should investors do? V-Guard's share price has given return of 18.5% in the past five years (from ~₹ 189 in May 2017 to ~₹ 224 levels in May 2022).

- We change our rating on the stock from BUY to HOLD

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 in the same space.

- Polycab is a leader in the wire & cable industry with organised market share of ~24%. Robust b/s with average RoE, RoCE of 24%, 27%, respectively
- BUY with a target price of ₹ 2850



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	285 / 182
Equity capital (₹ Crore)	43.2
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	57.2	56.1	56.1	56.0	55.9
FII	14.9	14.5	14.3	14.3	12.7
DII	13.9	15.5	15.6	16.0	17.3
Others	14.0	13.9	14.0	13.8	14.1

Price Chart



Recent event & key risks

- Key Risk:** (i) Demand revival of summer related products (ii) High input prices

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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	4050.1	4439.9	12.7
EBITDA	224.3	258.0	312.1	338.2	10.1	360.5	440.9	14.2
EBITDA Margin (%)	8.6	10.3	11.5	9.7		8.9	9.9	
PAT	168.1	188.3	201.9	228.4	9.6	234.9	286.2	11.9
EPS (₹)	3.9	4.4	4.7	5.3		5.4	6.6	
P/E(x)	56.7	50.8	47.5	42.0		41.2	33.8	
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		26.5	21.6	
RoE (%)	18.7	18.9	16.7	16.2		18.0	20.0	
RoCE (%)	24.1	25.1	23.9	21.2		23.7	26.2	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results:

- Strong revenue growth of ~24% YoY ~₹ 1058 crore led by ~14% price hike. The volume growth was ~ 9% YoY led by strong demand of kitchen appliances and market share gains in the water heater segment
- The electrical segment revenue grew 33% YoY to ₹ 515 crore in Q4FY22 supported by price hike of ~30% in the wire & cable segments. The consumer durables (CD) segment revenues increased by 32% YoY to ~₹ 296 crore supported by strong demand of water heater, fan and kitchen appliances. However, electronic segment revenue grew albeit a slow pace of ~2% YoY to ₹ 247 crore in Q4FY22. This was mainly due to lower demand of stabilisers
- Geography wise, both south and non-south regions revenue increased ~25% and ~22% YoY to ₹ 599 crore and ₹ 451 crore, respectively
- Delay in price hikes in the consumer durable categories and lower sales contribution of premium water heater segments led the decline in gross margin by 263 bps YoY. As a result, EBITDA margin was down 242 bps YoY to 10.5%

Earnings Conference Call highlights

- **Demand outlook:**
 - The company has regained its lost market share in the consumer durables segment, mainly for its water heaters and fans category due to adequate supply. The company sees a strong demand for fans due to strong summer and enough capacity churned from its Uttarakhand factory
 - V-Guard's 50-60% product portfolio is dominated by summer related products
 - Revival of construction industry and housing demand is a key driver for growth in demand of the company's electrical segment (largely 'wires')
 - Even though demand for consumer durables and electrical is strong, demand for the company's electronics segment consisting of inverters and stabilisers is weak due to seasonality. Electronics segment grew slowly at ~2% YoY in Q4. According to the management, the demand in this area has slightly picked up starting from April 2022 due to frequent summer time power cuts in in several areas
 - The company has invested ~₹ 60 crore in its subsidiary, VCPL to set up a plant for manufacturing inverters and stabilisers. Full range of products from this plant will be available from August 2022 leading to a better supply of these products. However, profit generation from V-Guard consumer products will not be immediate
 - Regionally, due to continuing summer, demand is higher in North and West regions of the country and lower in South and East due to unseasonal rains
 - Going forward, the company's focus is on enhancing product capability, market accessibility and increasing portfolio competitiveness
- **Margins:**
 - According to the management, margins are expected to be driven by volume growth, pricing actions and better fixed cost absorption in FY23E
 - Constant volatility in raw material prices has affected the margins. The company has taken cumulative price hikes of ~10% in FY22 across its product categories except for wires. It has taken ~35% price hikes in the wire category. Margins are expected to stabilise with the flattening of raw material prices
- **Capex:** Planned capex of ₹ 200 crore in the next three years
- **Tax rate:** 25.2% for FY23-24

- **Others:**

- The company was dependent on China for imports three years ago but manufacturing set up at Sikkim is producing 70% of its capacity and is expected to rise to ~85% in FY23E
- The company will receive supply of innovative battery solutions through its stake in Gegadyne Energy Labs from August 2022 onwards
- Stabilisation of supply-chain is expected to bring down the inventory levels

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Havells	78,861	10428	13056	14893	17783	15	13	12	14	1040	1109	1201	1666	25	24	26	35	20	20	22	29	76	71	66	47
Crompton Greaves	21,562	4804	5439	6204	7017	15	14	13	14	617	547	542	667	34	35	25	29	32	28	23	25	35	39	40	32
Bajaj Electrical	10,968	4585	4813	5442	6152	7	5	6	7	189	124	253	339	15	14	19	22	11	8	15	17	58	88	43	32
Polycab	38,347	8792	12204	13594	15427	13	10	11	12	886	917	941	1207	21	20	21	23	18	16	16	17	43	42	41	32
Symphony	7,576	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	71	63	41	31
V guard	9,667	2721	3498	4050	4440	11	10	9	10	202	228	235	286	24	21	24	26	17	16	18	20	48	42	41	34
Voltas	32,643	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 growth of 29% YoY in FY22 to ₹ 3498 crore (three year CAGR of +10%). This was led by 32% and 44% growth in the electricals and CD segment to ~₹ 1620 crore and ₹ 1063 crore, respectively. The electronic segment revenue growth of 7% was tepid despite a favourable base. On the margin front, EBITDA margin declined 180 bps YoY to 9.7% led by higher RM costs and change in product mix resulting in flattish PBT of ₹ 294 crore in FY22. However, lower tax provisions led to PAT growth of 13% YoY. Going forward, we build in topline CAGR of 13% over FY22-24E led by new product launches and expansion in new geographies. However, we build in flattish EBITDA margin of ~10% over FY22-24E factoring in higher advertisement expenditure & rising contribution of low margin business. PAT is likely to grow at CAGR of 13% in FY22-24E tracking higher sales growth. We believe CD segment margin revival (4.7% in FY22) will be a factor to watch for further re-rating on the stock. Hence, we change our rating to HOLD and value the stock at ₹ 255/share (valuing 38x FY24E, ~30% discount to Havells).

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comment
Revenue	1,058.2	898.4	855.2	23.7	967.4	9.4	Strong topline growth was led by ~14% price hike. The volume grew by ~9% YoY
Other Income	3.6	4.1	3.9	-7.5	2.7	35.3	
Raw Material Exp	749.9	627.3	583.5	28.5	666.0	12.6	Delay in price hike and change in product mix led to 263 bps YoY dip in gross margin
Employee Exp	65.2	72.8	57.5	13.4	75.5	(13.7)	
Advertisement Exp	12.7	18.0	15.0	-15.3	11.6	9.4	
Other Exp	119.4	95.8	88.8	34.5	127.4	-6.3	Higher fixed cost associated with opening of new plants led to higher other expenses
EBITDA	111.0	84.5	110.4	0.6	86.8	27.9	
EBITDA Margin (%)	10.5	9.4	12.9	-242 bps	9.0	152 bps	Higher raw material costs and spike in other expenses drags EBITDA margins
Depreciation	12.9	13.8	12.0	7.8	13.8	-6.3	
Interest	1.8	1.6	2.6	-31.5	1.5	17.4	
PBT	100.0	73.2	99.8	0.2	74.2	34.8	Sharp decline in EBITDA margin drags overall PBT
Total Tax	10.4	20.2	31.4	-66.8	20.3	-48.6	
PAT	89.6	53.0	68.4	31.0	53.9	66.1	
Key Metrics							
Electronics	247.1	235.2	242.8	1.8	199.9	23.6	Lower sales of seasonal products during the start of the quarter amid fear of pandemic led disruptions
Electricals	515.2	432.4	388.7	32.5	429.2	20.1	sharp price hikes helped drive revenue growth in electricals segments
Consumer Durable	295.9	230.8	224.0	32.1	338.4	-12.6	Favourable base, strong growth in the water heater and small kitchen appliances segment drives topline

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	%chg	Old	New	%chg	
Revenue	3,853.7	4050.1	5.1	4281.0	4439.9	3.7	Considering the FY22 performance we have tweaked our revenue estimates upward. We model revenue CAGR of 13% over FY22-24E on improved utilisation of new plants and expansion in new geographies
EBITDA	370.0	360.5	(2.6)	454.8	440.9	(3.1)	
EBITDA Mar %	9.6	8.9	-70bps	10.6	9.9	-67bps	We have marginally cut our margin estimates considering delay in price hike and change in product mix
PAT	245.4	234.9	(4.3)	304.0	286.2	(5.9)	
EPS (₹)	5.7	5.4	(4.3)	7.1	6.6	(5.9)	

Source: ICICI Direct Research

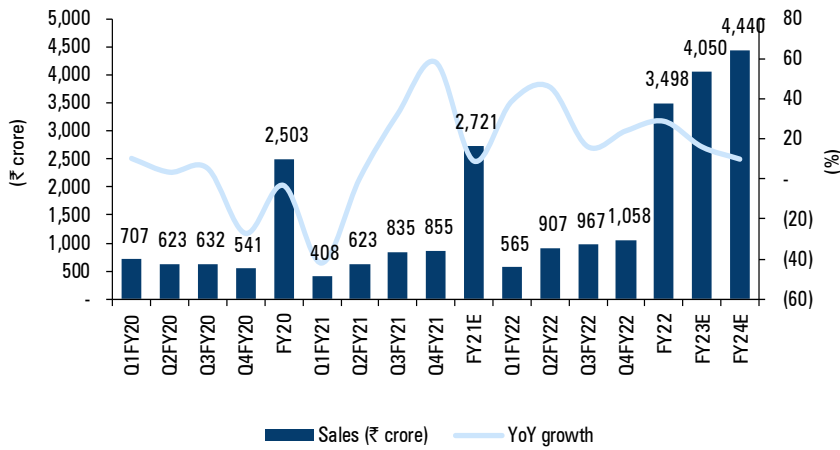
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Electronics Growth	-0.7	0.6	7.0	18.6	11.8	8.7	21.4	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	-7.1	14.1	27.6	15.0	10.3	17.9	17.4	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	37.0	14.0	11.0	26.7	17.1	11.1	Favourable base and new product launches (water purifier, breakfast appliances, and kitchen hobs and Chimneys) will drive segment revenue

Source: ICICI Direct Research

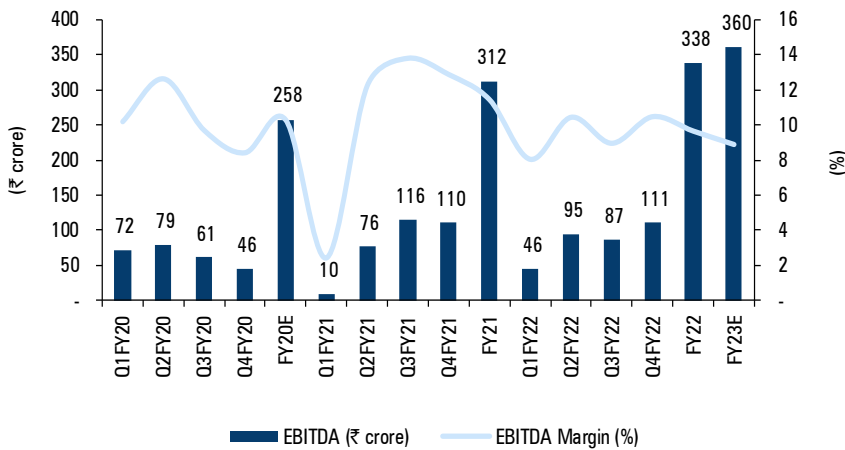
Financial story in charts

Exhibit 5: Revenue growth led by consumer durables and electricals segment



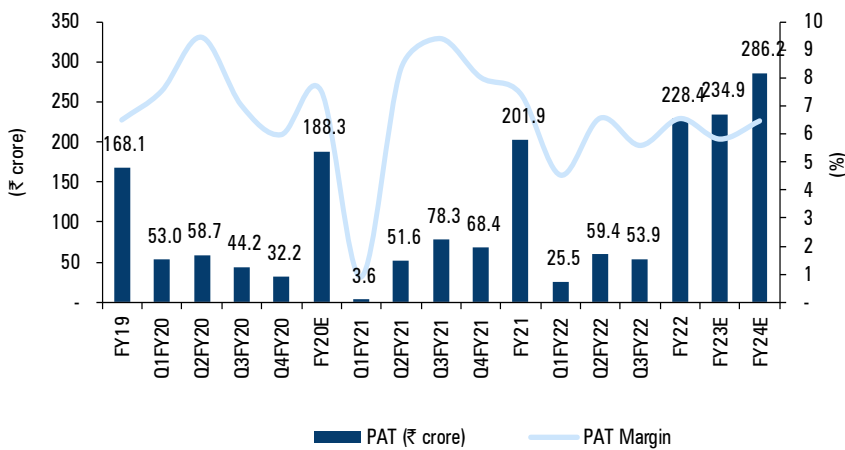
Source: Company, ICICI Direct Research

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	4050.1	4439.9
Growth (%)		28.6	15.8	9.6
Expenses				
Raw Material Expenses	1852.5	2413.9	2794.6	2996.9
Employee Expenses	226.6	270.0	311.9	346.3
Administrative Expenses	305.5	424.0	486.0	541.7
Total Operating Expenditure	2409.1	3160.0	3689.7	3999.0
EBITDA	312.1	338.2	360.5	440.9
Growth (%)		8.4	6.6	22.3
Other Income	20.7	12.8	15.8	17.4
Interest	6.1	7.9	1.5	2.4
PBDT	326.7	343.1	374.8	455.9
Depreciation	38.6	49.1	60.8	73.3
PBT before Exceptional Items	288.1	294.0	314.0	382.6
PBT	288.1	294.0	314.0	382.6
Total Tax	86.2	65.5	79.1	96.4
PAT	201.9	228.4	234.9	286.2

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	234.9	286.2
Depreciation	38.6	49.1	60.8	73.3
Cash Flow before working capital ch	246.6	285.5	297.1	361.9
Net Increase in Current Assets	-205.3	-338.4	-63.3	-146.6
Net Increase in Current Liabilities	184.7	58.8	148.6	73.8
Net cash flow from operating act	226.0	5.9	382.5	289.0
(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	-331.6	-148.2
Net Cash flow	169.6	-219.9	-10.1	70.8
Cash and Cash Equivalent at the beg.	111.6	281.2	61.3	51.2
Cash	281.2	61.3	51.2	122.1

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	1258.6	1389.0
Total Shareholders funds	1211.1	1407.0	1301.7	1432.2
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	1383.4
Assets				
Total Gross Block	585.6	734.0	804.0	874.0
Less Total Accumulated Depreci	219.6	268.7	329.5	402.7
Net Block	366.0	465.3	474.5	471.3
Total Fixed Assets	385.6	476.3	485.5	482.3
Inventory	631.5	859.6	832.2	912.3
Debtors	388.1	484.1	554.8	608.2
Loans and Advances	3.7	3.2	5.2	5.7
Cash	281.2	61.3	51.2	122.1
Total Current Assets	1403.1	1521.6	1574.8	1792.3
Creditors	474.7	488.0	610.3	669.0
Provisions	55.0	61.9	77.4	84.8
Total Current Liabilities	559.2	618.0	766.6	840.4
Net Current Assets	843.9	903.6	808.2	951.9
Total Assets	1080.3	1315.6	1478.6	1383.4

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS	4.7	5.3	5.4	6.6
Cash EPS	5.6	6.5	6.9	8.3
BV	28.3	32.9	30.2	33.2
DPS	1.2	2.4	3.6	3.6
Operating Ratios (%)				
EBITDA Margin	11.5	9.7	8.9	9.9
PAT Margin	7.4	6.5	5.8	6.4
Return Ratios (%)				
RoE	16.7	16.2	18.0	20.0
RoCE	23.9	21.2	23.7	26.2
RoIC	28.4	21.6	23.7	27.6
Valuation Ratios (x)				
EV / EBITDA	29.9	28.2	26.5	21.6
P/E	47.5	42.0	41.2	33.8
EV / Net Sales	3.4	2.7	2.4	2.1
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	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,04,770	33.4	32.2	43.1	52.3	95.0	98.8	73.8	60.8	61.8	62.9	49.4	41.1	29.6	27.1	33.3	36.8	25.0	23.0	28.4	30.9
Berger Paints (BERPAI)	61,865	7.4	8.7	9.6	12.5	86.0	73.3	66.4	50.8	51.9	46.0	41.9	32.8	24.9	27.7	29.1	33.9	21.3	23.1	24.0	27.7
Kansai Nerolac (KANNER)	21,718	9.8	6.9	9.7	12.1	40.9	58.0	41.4	33.4	25.8	33.4	25.8	21.3	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6
Pidilite Industries (PIDIND)	1,12,681	22.2	23.8	26.0	32.2	100.1	93.4	85.5	68.9	66.8	60.9	56.8	46.1	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4
Bajaj Electricals (BAJELE)	10,968	16.5	10.8	22.0	29.5	57.9	88.2	43.4	32.4	37.0	43.5	32.5	24.7	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	21,562	9.8	8.7	8.6	10.6	35.0	39.4	39.8	32.3	28.4	28.1	26.7	22.2	34.4	35.2	25.2	29.3	31.9	27.7	23.3	24.9
Havells India (HAVIND)	78,861	16.7	17.8	19.3	26.7	75.9	71.1	65.6	47.3	49.6	47.0	43.8	32.3	24.9	24.2	25.9	34.7	20.1	20.4	21.8	29.2
Polycab India (POLI)	38,347	59.3	61.4	62.9	80.8	43.3	41.8	40.8	31.8	33.7	29.4	26.3	20.5	20.6	20.2	20.7	23.0	17.9	15.6	15.7	17.5
Symphony (SYMLIM)	7,576	15.3	17.3	26.1	34.8	70.8	62.6	41.5	31.1	53.2	45.9	32.0	24.1	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	9,667	4.7	5.3	5.4	6.6	47.5	42.0	41.2	33.8	30.1	28.4	26.7	21.7	23.9	21.2	23.7	26.2	16.7	16.2	18.0	20.0
Voltas Ltd (VOLTAS)	32,643	16.0	15.3	21.0	28.9	61.7	64.5	47.0	34.1	50.2	46.9	38.9	27.7	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6
Amber Enterprises (AMBEN)	8,885	24.7	33.0	60.4	86.2	106.7	79.8	43.7	30.6	40.1	33.5	24.2	18.1	7.7	6.8	10.5	13.4	5.2	6.4	11.2	13.8
Dixon Technologies (DIXTEC)	20,808	27.3	35.9	78.5	110.9	128.6	97.6	44.6	31.6	72.6	50.6	27.9	20.6	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	22,865	77.0	76.2	78.8	92.7	23.4	23.6	22.9	19.4	17.2	18.0	17.2	14.1	33.1	25.9	25.2	26.7	30.9	25.2	24.3	25.1
Astral Ltd (ASTPOL)	34,733	20.3	24.9	27.5	33.9	85.1	69.5	62.8	50.9	53.2	44.8	41.4	34.2	27.5	29.6	28.8	30.3	21.5	23.0	22.3	23.3

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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