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## V-Guard Industries

**ADD**  
Maintained  
**Rs260**

### Sunflame acquisition likely to be DCF-accretive

V-Guard's planned acquisition of Sunflame is likely to be both earnings-accretive (in FY24E) and DCF-accretive. V-Guard's two major segments – (1) stabilisers, and (2) UPS & battery – are likely to grow at low-to-mid single digits in tandem with improving availability of electricity across urban and rural markets. Acquisition of Sunflame, which operates in the growing kitchen appliance segment, offers strong growth tailwinds. It will also allow V-Guard to strengthen its presence in northern, eastern and western India as well as reduce the current over-dependence on V-Guard brand. We also model synergies in raw material sourcing, branding and distribution.

We continue to like V-Guard's business model due to: (1) its strong market share in stabilisers, water heaters and pumps, (2) investments in distribution and brand-building, and (3) strong segmental investments in kitchen appliances. Maintain ADD with a DCF-based target price of Rs275 (or P/E 35x FY24E EPS).

► **Acquisition of Sunflame:** V-Guard plans to acquire Sunflame Enterprises for a cash consideration of Rs6,600mn, out of which Rs250mn will be paid two years after the date of transaction closure. Sunflame is based in New Delhi and has its manufacturing plant at IMT Faridabad and presence across India. It operates in chimney, cooker, cook top and other small appliance segments.

► **EPS-accretive acquisition:** Assuming an interest rate of 9% and synergy benefit of 2% of Sunflame sales (FY24E), we believe the acquisition will be earnings-accretive. As Sunflame's margins are similar to margins of large kitchen appliance players, we estimate the scope for synergy benefits will be limited to 2-3% of its net sales.

► **Sunflame's market shares across segments:** Sunflame is present across multiple kitchen appliances such as chimneys, cookers, cook tops, etc. It has low-to-mid single digit market shares in most categories. It also has a small presence in the water heater, air cooler, iron and emergency lantern space.

► **Strong financials of Sunflame:** Sunflame reported revenue and PAT CAGRs of 4.7% and 2.8% respectively over FY14-FY22. It has reported average gross margin of ~36% over FY18-FY21, in line with other kitchen appliance companies. This indicates that the brand enjoys strong trade and consumer acceptance. Its average EBITDA margin of 12.7% over FY14-FY21 is also largely in line with larger kitchen appliance companies. Net working capital days have reduced from 71 in FY14 to 31 in FY21. It is a net cash company with an average RoCE of 24% over FY15-FY21 indicating strong financials.

► **Maintain ADD:** We model V-Guard to report PAT CAGR of 21.5% over FY22-FY24E and RoCE of >22% over FY23E-FY24E. Maintain **ADD** with a DCF-based target price of Rs275 (implied P/E 32x FY24E).

Market Cap	Rs112bn/US\$1.4bn	<b>Year to March</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
Reuters/Bloomberg	VGUA.BO / VGRD IN	Revenue (Rs mn)	27,212	34,982	43,213	51,060
Shares Outstanding (mn)	431.8	Adj. Net Profit (Rs mn)	2,008	2,277	2,651	3,359
52-week Range (Rs)	269/182	Dil. Rec. EPS (Rs)	4.7	5.3	6.1	7.8
Free Float (%)	41.1	% Chg YoY	6.8	13.0	16.4	26.7
FII (%)	13.0	P/E (x)	55.7	49.3	42.3	33.4
Daily Volume (US\$'000)	1,074	CEPS (Rs)	5.6	6.4	7.6	9.4
Absolute Return 3m (%)	8.6	EV/EBITDA (x)	35.8	33.1	27.3	22.5
Absolute Return 12m (%)	8.9	Dividend Yield (%)	0.5	0.5	0.6	0.7
Sensex Return 3m (%)	4.2	RoCE (%)	23.3	20.8	22.1	23.5
Sensex Return 12m (%)	7.1	RoE (%)	18.3	17.5	17.7	19.4

Please refer to important disclosures at the end of this report

#### Company update

### White Goods & Durables

Target price: Rs275

#### Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	55.9	55.9	55.9
Institutional investors	30.0	30.5	31.0
MFs and others	15.7	16.8	16.9
FI/ Banks	0.0	0.0	0.0
Insurance	1.6	1.2	1.1
FII	12.7	12.5	13.0
Others	14.1	13.6	13.1

Source: BSE

#### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.  
Source: Bloomberg, I-sec research

#### Research Analysts:

##### Aniruddha Joshi

Aniruddha.joshi@icicisecurities.com  
+91 22 6807 7249

##### Manoj Menon

manoj.menon@icicisecurities.com  
+91 22 6807 7209

##### Karan Bhuwania

karan.bhuwania@icicisecurities.com  
+91 22 6807 7351

##### Pranjal Garg

pranjal.garg@icicisecurities.com  
+91 22 6807 7650

## DCF-accretive acquisition in kitchen appliance segment

**Overview of the acquisition:** V-Guard plans to acquire Sunflame Enterprises P Ltd. for a cash consideration of Rs6600mn, out of which Rs250mn will be paid after two years from date of transaction closure. Sunflame is based in New Delhi and has its manufacturing plant at IMT Faridabad and presence across India. It operates in the chimney, cooker, cook top and other small appliance segments.

**Table 1: Details of the acquisition**

Particulars	Details (Rsmn)
<b>Company</b>	<b>Sunflame Enterprises P Ltd</b>
Revenues (FY22 Rs mn)	3,497.9
PBT (FY22 Rs mn)	442.3
PAT (FY22 Rsmn)	330.1
PBT margin (%)	12.6
PAT margin (%)	9.4
Consideration (Rs mn)	6,600
EV/Sales (x)	1.9
EV/PAT (x)	20.0

Source: Company data, I-Sec research

**Acquisition likely to be EPS-accretive:** Assuming an interest rate of 9% and synergy benefits of 2% of Sunflame sales (FY24E), we believe the acquisition is likely to be earnings-accretive. Considering that Sunflame's margins are comparable with margins of large players in kitchen appliances, we believe the scope for synergy benefits will be largely limited to 2-3% of Sunflame's net sales.

**Table 2: EPS-accretive acquisition**

Particulars	Rs mn	Comments
<b>V Guard FY24E PBT</b>	<b>4,510</b>	I-Sec estimate
Less: Loss of other income/ Interest cost	594	Assumed 9% on Rs6,600mn
Add: PBT of Sunflame	585	Assumed 15% CAGR over FY22 PBT of Rs442.3
Add: Likely Synergy benefits	93	Assumed 2% of Sales of Sunflame (FY24E)
<b>Revised PBT of V Guard</b>	<b>4,594</b>	

Source: Company data, I-Sec research

**Market shares of Sunflame across categories:** Sunflame is present across multiple kitchen appliances such as chimneys, cookers, cook tops, and other kitchen appliances. It has low-to-mid single digit market shares in most categories. Sunflame also has a small presence in the water heater, air cooler, iron and emergency lantern space.

**Table 3: Sunflame's market shares across categories**

Segment	Market shares
Cooking Hob - Free standing Hob	1.2
Cooktops - Built in Hobs	8
Cookers	Low-mid single digits
Other kitchen appliances	Low-mid single digits

Source: Company data, I-Sec research

**Sunflame's financials:** Sunflame has reported revenue and PAT CAGRs of 4.7% and 2.8% respectively over FY14-FY22. It has reported average gross margin of ~36% over FY18-FY21, which is largely in line with that of large kitchen appliances. It indicates that the brand enjoys strong trade and consumer acceptance. Its average EBITDA margin of 12.7% over FY14-FY21 is also largely in line with larger kitchen appliance companies. Net working capital days have reduced from 71 in FY14 to 31 in FY21. Sunflame is a net cash company with an average RoCE of 24% over FY15-FY21 indicating strong financials.

**Table 4: Income statement – Sunflame Enterprises**

Particulars (Rsmn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
<b>Revenues</b>	<b>2,428</b>	<b>2,573</b>	<b>2,478</b>	<b>2,652</b>	<b>2,455</b>	<b>2,671</b>	<b>2,630</b>	<b>2,641</b>	<b>3,498</b>
<b>Expenditure</b>									
Cost of materials consumed	-	-	-	-	-	-	-	270	
Purchases of stock-in-trade	-	-	-	-	1,579	1,673	1,714	1,459	
Changes in Inventories	-	-	-	-	-57	33	-13	-25	
Employee benefit expense	89	121	117	113	120	121	128	149	
CSR expenditure	-	-	-	-	-	-	8	8	
Other Expenses	-	-	-	-	490	516	532	439	
Operational, Admin & Other Expenses	2,104	2,243	2,113	2,322	2,132	2,344	2,369	2,300	
<b>EBITDA</b>	<b>324</b>	<b>329</b>	<b>365</b>	<b>330</b>	<b>323</b>	<b>327</b>	<b>261</b>	<b>341</b>	
Depreciation	3	7	4	3	2	3	4	4	
EBIT	320	322	361	328	321	325	257	337	
Interest	2	4	0	0	0	0	0	3	
Other Income	55	37	25	164	121	92	78	51	
<b>PBT</b>	<b>373</b>	<b>354</b>	<b>386</b>	<b>492</b>	<b>442</b>	<b>416</b>	<b>335</b>	<b>386</b>	<b>442</b>
Tax	109	101	120	153	153	149	83	103	112
<b>PAT</b>	<b>264</b>	<b>254</b>	<b>266</b>	<b>339</b>	<b>290</b>	<b>267</b>	<b>252</b>	<b>283</b>	<b>330</b>

Source: Company data, I-Sec research

**Table 5: Balance Sheet – Sunflame Enterprises**

Shareholders' funds (Rsmn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Share capital	2	2	2	2	2	2	2	2
Reserves and surplus	1,048	837	1,103	1,442	1,732	1,794	1,451	1,734
<b>Total shareholders funds</b>	<b>1,050</b>	<b>839</b>	<b>1,105</b>	<b>1,444</b>	<b>1,733</b>	<b>1,796</b>	<b>1,453</b>	<b>1,735</b>
<b>Non-current liabilities</b>								
Long-term borrowings	-	-	-	-	-	-	-	-
Other long-term liabilities	7	9	8	5	9	21	24	22
Long-term provisions	7	6	6	7	6	6	6	6
<b>Total non-current liabilities</b>	<b>14</b>	<b>15</b>	<b>14</b>	<b>12</b>	<b>14</b>	<b>27</b>	<b>31</b>	<b>28</b>
<b>Current liabilities</b>								
Short-term borrowings	-	-	-	-	-	-	103	-
Trade payables	279	316	303	307	457	392	346	540
Other current liabilities	37	32	46	52	46	43	36	54
Short-term provisions	5	4	20	17	31	3	3	2
<b>Total current liabilities</b>	<b>321</b>	<b>352</b>	<b>369</b>	<b>376</b>	<b>533</b>	<b>437</b>	<b>488</b>	<b>597</b>
<b>Total equity and liabilities</b>	<b>1,384</b>	<b>1,206</b>	<b>1,488</b>	<b>1,832</b>	<b>2,281</b>	<b>2,260</b>	<b>1,971</b>	<b>2,360</b>
<b>Assets</b>								
<b>Fixed assets</b>								
Tangible assets	84	108	129	145	157	171	212	344
Intangible assets	1	-	-	0	0	0	0	0
<b>Total fixed assets</b>	<b>85</b>	<b>108</b>	<b>129</b>	<b>145</b>	<b>157</b>	<b>172</b>	<b>212</b>	<b>344</b>
Non-current investments	287	139	117	60	20	200	198	288
Deferred tax assets (net)	5	8	13	8	8	6	6	6
Long-term loans and advances	5	6	81	190	175	174	174	84
<b>Total non-current assets</b>	<b>381</b>	<b>261</b>	<b>339</b>	<b>403</b>	<b>359</b>	<b>551</b>	<b>590</b>	<b>721</b>
<b>Current assets</b>								
Inventories	428	489	416	255	312	279	291	375
Trade receivables	244	206	292	248	450	617	495	405
Cash and bank balances	207	148	420	910	1,131	783	562	818
Short-term loans and advances	124	102	17	17	29	31	32	41
Other current assets	-	-	4	-	-	-	-	-
<b>Total current assets</b>	<b>1,003</b>	<b>945</b>	<b>1,149</b>	<b>1,429</b>	<b>1,922</b>	<b>1,709</b>	<b>1,381</b>	<b>1,639</b>
<b>Total assets</b>	<b>1,384</b>	<b>1,206</b>	<b>1,488</b>	<b>1,832</b>	<b>2,281</b>	<b>2,260</b>	<b>1,971</b>	<b>2,360</b>

Source: Company data, I-Sec research

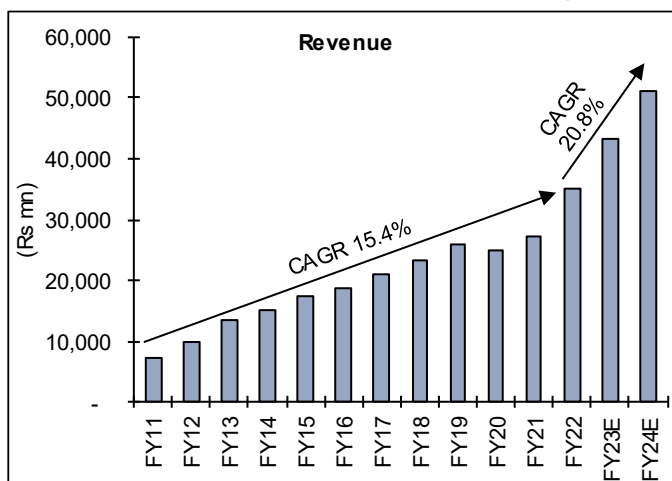
**Table 6: Ratio analysis – Sunflame Enterprises**

<b>Ratio Analysis</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
<b>Profitability ratios</b>									
Gross margin (%)	-	-	-	-	38.0	36.1	35.3	35.5	-
EBITDA margin (%)	13.3	12.8	14.7	12.5	13.2	12.3	9.9	12.9	-
EBIT margin (%)	13.2	12.5	14.6	12.4	13.1	12.1	9.8	12.8	-
PBT margin (%)	15.4	13.8	15.6	18.5	18.0	15.6	12.7	14.6	12.6
PAT margin (%)	10.9	9.9	10.7	12.8	11.8	10.0	9.6	10.7	9.4
Effective tax rate (%)	29.1	28.4	31.0	31.1	34.5	35.9	24.9	26.7	25.4
RoE (%)	-	26.9	27.4	26.6	18.2	15.1	15.5	17.7	-
RoCE (%)	-	33.6	36.6	25.4	20.0	18.2	15.1	20.1	-
<b>Major costs as % of net sales</b>									
Raw material cost	-	-	-	-	62.0	63.9	64.7	64.5	-
Employee costs	3.7	4.7	4.7	4.3	4.9	4.5	4.9	5.7	-
CSR expenditure	-	-	-	-	-	-	0.3	0.3	-
Other expenditure	-	-	-	-	20.0	19.3	20.2	16.6	-
<b>Growth rates</b>									
Sales		6.0	-3.7	7.0	-7.4	8.8	-1.5	0.4	32.5
EBITDA		1.7	10.8	-9.4	-2.1	1.3	-20.3	30.6	-
PAT		-4.1	4.9	27.3	-14.4	-7.8	-5.8	12.3	16.8
<b>Net working capital days</b>									
Inventories	64	69	61	35	46	38	40	52	-
Trade receivables	37	29	43	34	67	84	69	56	-
Short-term loans and advances	19	14	3	2	4	4	4	6	-
Other current assets	-	-	1	-	-	-	-	-	-
Trade payables	42	45	45	42	68	54	48	75	-
Other current liabilities	6	5	7	7	7	6	5	8	-
Short-term provisions	1	1	3	2	5	0	0	0	-
<b>Net working capital days</b>	<b>71</b>	<b>63</b>	<b>53</b>	<b>20</b>	<b>38</b>	<b>67</b>	<b>60</b>	<b>31</b>	-
Net Debt/ Equity (x)	-0.1	-0.1	-0.2	-0.3	-0.5	-0.3	-0.2	-0.3	-

Source: Company data, I-Sec research

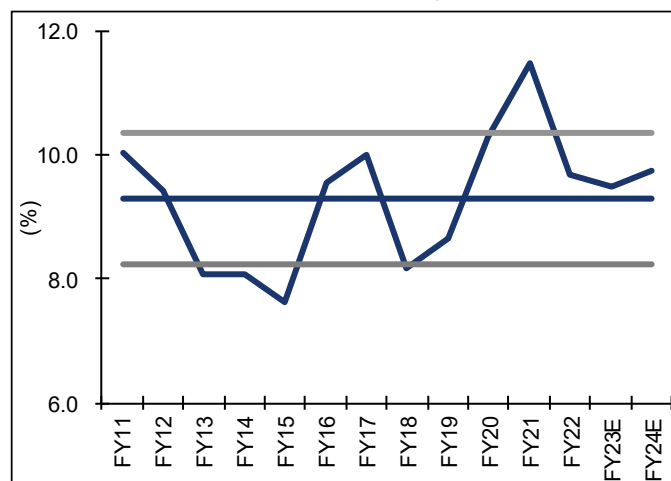
## Key ratios – Annual

Chart 1: V-Guard – Revenue and revenue growth



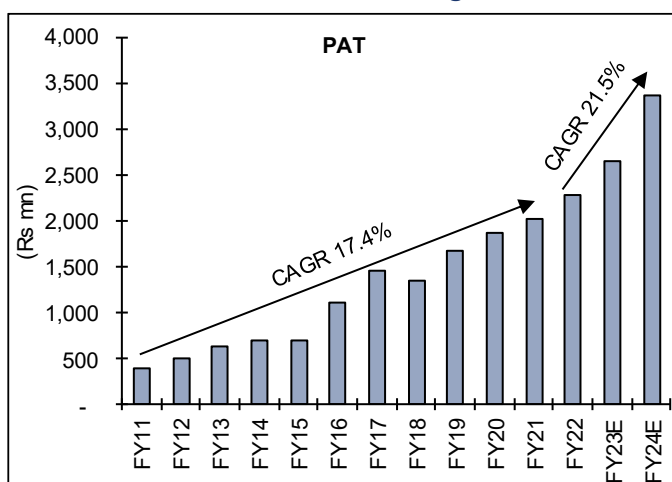
Source: Company data, I-Sec research

Chart 2: V-Guard – EBITDA margin



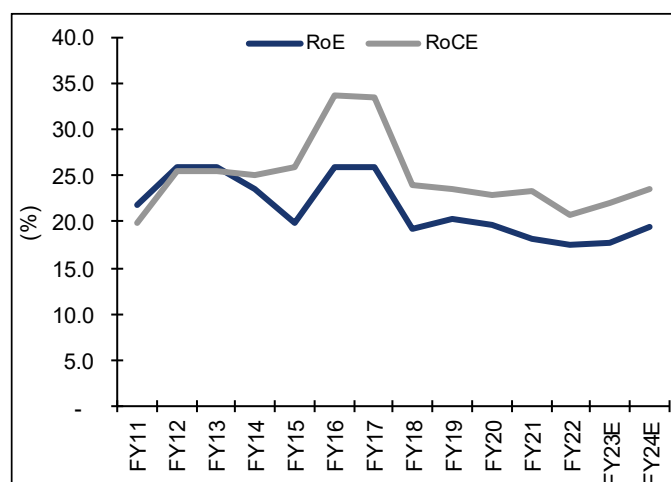
Source: Company data, I-Sec research

Chart 3: V-Guard – PAT and PAT growth



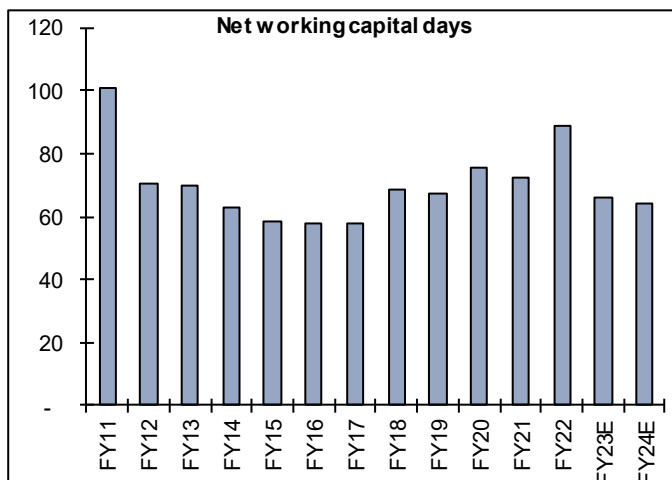
Source: Company data, I-Sec research

Chart 4: V-Guard – RoE and RoCE



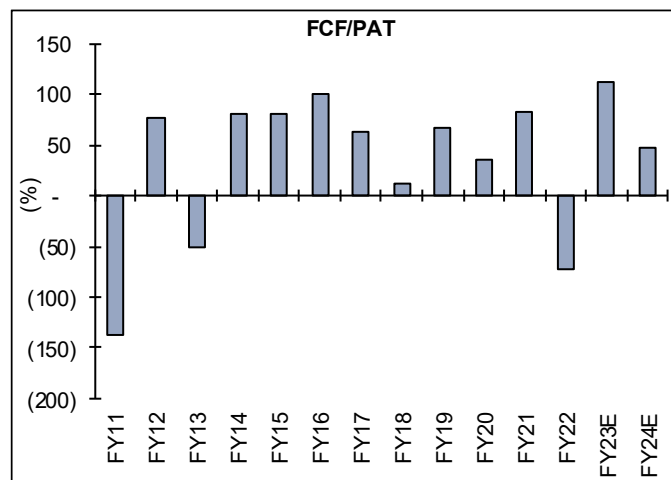
Source: Company data, I-Sec research

Chart 5: V-Guard – Net working capital days



Source: Company data, I-Sec research

Chart 6: V-Guard – FCF/PAT (%)



Source: Company data, I-Sec research

## Valuation and risks

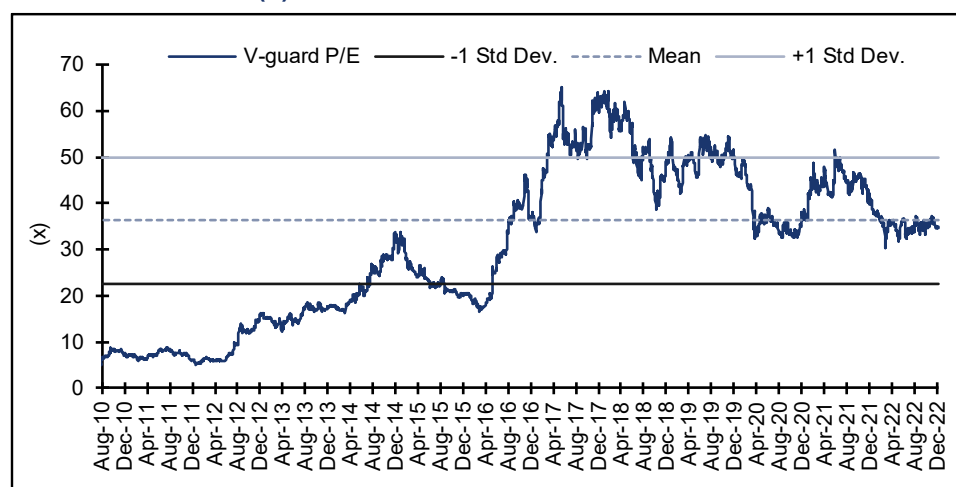
We model V-Guard to report revenue and PAT CAGRs of 20.8% and 21.5% over FY22-FY24E and RoE of 19.4% in FY24E vs 17.5% in FY22. At our DCF-based target price of Rs275, the implied P/E works out to 35x FY24E EPS. Maintain **ADD**.

**Table 7: DCF-based valuation**

Particulars	Amt (Rs)
Cost of Equity (%)	10.4
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	33,988
Discounted terminal value (Rs mn)	84,314
Total equity value (Rs mn)	1,18,301
<b>Value per share (Rs)</b>	<b>275</b>

Source: Company data, I-Sec research

**Chart 7: Mean P/E (x) and standard deviation**



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

**Price chart**

Source: Bloomberg

## Financial summary

Table 8: Profit and Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>27,212</b>	<b>34,982</b>	<b>43,213</b>	<b>51,060</b>
<b>Operating Expenses</b>	<b>23,652</b>	<b>31,600</b>	<b>38,373</b>	<b>45,213</b>
<b>EBITDA</b>	<b>3,121</b>	<b>3,382</b>	<b>4,105</b>	<b>4,978</b>
% margins	11.5	9.7	9.5	9.8
Depreciation & Amortisation	386	491	609	711
Gross Interest	61	79	72	72
Other Income	207	128	139	314
<b>Recurring PBT</b>	<b>2,881</b>	<b>2,940</b>	<b>3,564</b>	<b>4,510</b>
Less: Taxes	862	655	898	1,137
Less: Minority Interest	11	8	15	15
<b>Net Income (Reported)</b>	<b>2,008</b>	<b>2,277</b>	<b>2,651</b>	<b>3,359</b>
Extraordinaries (Net)	5	(5)	-	-
<b>Recurring Net Income</b>	<b>2,013</b>	<b>2,272</b>	<b>2,651</b>	<b>3,359</b>

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	14,010	15,202	19,102	21,561
of which cash & cash eqv.	2,812	613	1,961	1,517
Total Current Liabilities & Provisions	5,797	6,046	9,334	11,029
<b>Net Current Assets</b>	<b>8,213</b>	<b>9,155</b>	<b>9,768</b>	<b>10,532</b>
Investments	848	914	1,914	3,214
Net Fixed Assets	3,658	4,590	4,981	5,521
Capital Work-in-Progress	196	170	170	170
<b>Total Assets</b>	<b>12,914</b>	<b>14,829</b>	<b>16,833</b>	<b>19,436</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>793</b>	<b>796</b>	<b>796</b>	<b>796</b>
<b>Deferred Tax Liability</b>	<b>(38)</b>	<b>(91)</b>	<b>(91)</b>	<b>(91)</b>
Minority Interest	47	55	55	55
Equity Share Capital	430	432	432	432
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	11,683	13,638	15,642	18,245
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>12,113</b>	<b>14,070</b>	<b>16,073</b>	<b>18,677</b>
<b>Total Liabilities</b>	<b>12,914</b>	<b>14,829</b>	<b>16,833</b>	<b>19,436</b>

Source: Company data, I-Sec research

Table 10: Quarterly trend

(Rs mn, year ending March 31)

	Dec 21	Mar 22	June 22	Sept 22
Net sales	9,674	10,582	10,183	9,861
% growth (YoY)	15.8	23.7	80.2	8.7
EBITDA	868	1,110	820	727
Margin (%)	9.0	10.5	8.1	7.4
Other income	27	36	51	33
Extraordinaries (Net)	-	(5)	-	-
Adjusted Net profit	532	892	534	437

Source: Company data, I-Sec research

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Operating Cashflow</b>	<b>2,723</b>	<b>2,782</b>	<b>3,260</b>	<b>4,069</b>
Working Capital Changes	(413)	(3,195)	736	(1,208)
Capital Commitments	(647)	(1,245)	(1,000)	(1,250)
<b>Free Cashflow</b>	<b>1,663</b>	<b>(1,658)</b>	<b>2,996</b>	<b>1,611</b>
<b>Cashflow from Investing Activities</b>	<b>917</b>	<b>12</b>	<b>(1,000)</b>	<b>(1,300)</b>
Issue of Share Capital	46	46	-	-
Inc (Dec) in Borrowings	(52)	(84)	-	-
Dividend paid	(1)	(516)	(647)	(755)
<b>Change in Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>2,573</b>	<b>(2,200)</b>	<b>1,349</b>	<b>(444)</b>

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	4.7	5.3	6.1	7.8
Cash EPS	5.6	6.4	7.6	9.4
Dividend per share (DPS)	1.2	1.3	1.5	1.8
Book Value per share (BV)	28.1	32.4	37.0	43.1
<b>Growth (%)</b>				
Net Sales	8.7	28.6	23.5	18.2
EBITDA	21.0	8.4	21.4	21.3
PAT	7.3	13.4	16.4	26.7
DPS	10.6	15.6	17.8	24.8
<b>Valuation Ratios (x)</b>				
P/E	55.7	49.3	42.3	33.4
P/CEPS	46.7	40.5	34.4	27.6
P/BV	9.3	8.0	7.0	6.0
EV / EBITDA	35.8	33.1	27.3	22.5
EV / Sales	4.1	3.2	2.6	2.2

## Operating Ratios

Raw Material / Sales (%)	68.1	69.0	70.0	69.8
Employee cost / Sales (%)	8.3	7.7	8.3	8.3
SG&A / Sales (%)	1.0	-	2.2	2.2
Other Income / PBT (%)	7.2	4.3	3.9	7.0
Effective Tax Rate (%)	29.9	22.3	25.2	25.2
Working Capital (days)	19.8	24.4	18.1	17.7
Inventory Turnover (days)	84.7	89.7	84.0	84.0
Receivables (days)	52.1	50.5	51.1	51.1
Payables (days)	72.0	58.0	73.0	73.0
Net D/E (x)	(0.2)	(0.0)	(0.2)	(0.2)

## Profitability Ratios (%)

Net Income Margins	7.4	6.5	6.2	6.6
RoACE	23.3	20.8	22.1	23.5
RoAE	18.3	17.5	17.7	19.4
Dividend Payout	25.7	24.6	24.4	22.5
Dividend Yield	0.5	0.5	0.6	0.7
EBITDA Margins	11.5	9.7	9.5	9.8

Source: Company data, I-Sec research



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