

Consumer Durable | Q4FY23 Result Update

Expect gradual margin recovery

- V-Guard's (VGIL) revenue (incl. Sunflame) grew 7.6% YoY in Q4FY23-was ahead of our estimate. However, excluding Sunflame, revenue increased by mere 2.3% due to softening consumer demand (4-yr CAGR of 9.8%).
- GM improved 210bps in Q4 due to moderation in RM cost and exhaustion of high cost inventory. EBITDA margin fell 190bps to 8.7% due to one time cost of Rs 100mn related to Sunflame acquisition and higher A&P spends.
- With taming inflation and revival in demand environment, management has targeted for 14-15% revenue growth (ex Sunflame) in FY24E and further expansion in GM in Q1FY24. Normalization of A&P expenses to 3-3.5% of sales is likely to squeeze EBITDA margins in the near term. However, Synergies from M&A of Sunflame and Simon Electric, coupled with premiumization will alleviate margin pressure to some extent.
- We have built in revenue/PAT CAGR of 16/40% resp over FY23-25E. We have lowered our EPS estimates for FY24 by 6% to Rs 6.2 and maintained FY25E estimates at Rs 8.7. Maintain Accumulate with a TP of Rs 275 (31x FY25E EPS).

EBITDA in line, PAT below estimate

Revenue grew 7.6% YoY to Rs. 11.4bn in Q4FY23. A 90/320bps increase in staff costs/other expenses resp. was partially offset by 220bps decline in RM costs. A&P increased 40bps to 1.6% in Q4. Consequently, EBITDA margin fell 190bps to 8.7%. EBITDA decreased 11.9% YoY to Rs. 987mn. PAT stood at 527mn, a decline of 41.1% YoY.

Continued increase in Non South contribution

During FY23, South/Non-South (NS) markets grew by 9% YoY /26.4%YoY respectively. Contribution from Non-South increased 370bps YoY to 45.3%, which was encouraging. Slower growth in South was due to fairly saturated distribution avenues in a mature market. V-Guard's South market has been growing at a similar pace (~8-10%) even pre Covid. Non-South market is ~ 60% of the total India market offering scope for distribution expansion for V-Guard as the company's presence is concentrated only in large towns and cities in NS currently.

Q4FY23 Result (Rs Mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	11,401	10,592	7.6	9,808	16.2
Total Expense	10,415	9,472	10.0	9,150	13.8
EBITDA	987	1,120	(11.9)	659	49.8
Depreciation	191	129	47.5	167	14.3
EBIT	796	991	(19.6)	492	61.8
Other Income	26	27	(1.8)	60	(56.3)
Interest	102	18	477.2	24	325.0
EBT	721	999	(27.8)	528	36.4
Tax	193	104	85.8	136	42.6
RPAT	527	894	(41.1)	393	34.2
APAT	527	894	(41.1)	393	34.2
			(bps)		(bps)
Gross Margin (%)	31.3	29.2	212	29.6	173
EBITDA Margin (%)	8.7	10.6	(192)	6.7	194
NPM (%)	4.6	8.4	(382)	4.0	62
Tax Rate (%)	26.8	10.4	1641	25.7	117
EBIT Margin (%)	7.0	9.4	(237)	5.0	197

CMP	Rs 251
Target / Upside	Rs 275 / 10%
NIFTY	18,534

Scrip Details

Equity / FV	Rs 432mn / Rs 1
Market Cap	Rs 108bn
	USD 1.3bn
52-week High/Low	Rs 275/ 204
Avg. Volume (no)	107,201
Bloom Code	VGRD IN

Price Performance	1M	3M	12M
Absolute (%)	(1)	1	7
Rel to NIFTY (%)	(3)	(3)	(5)

Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	55.9	55.9	55.8
MF/Banks/FIs	18.1	18.9	19.1
FIs	12.9	12.9	12.8
Public / Others	13.2	12.3	12.3

Valuation (x)

	FY23P	FY24E	FY25E
P/E	57.4	40.8	28.8
EV/EBITDA	35.0	25.5	18.6
ROE (%)	12.5	16.1	20.4
RoACE (%)	11.6	13.2	17.1

Estimates (Rs bn)

	FY23P	FY24E	FY25E
Revenue	41.3	48.7	55.8
EBITDA	3.2	4.4	5.9
PAT	1.9	2.7	3.8
EPS (Rs.)	4.4	6.2	8.7

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Exhibit 1: Segmental Performance

Revenues	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)
Electronics	2,717	2,474	9.9	1,914	42.0
Electricals	5,253	5,157	1.9	4,358	20.5
Consumer Durables	2,862	2,961	(3.4)	3,537	(19.1)
Sunflame	569	-	-	-	-
Total	11,401	10,592	7.6	9,808	16.2

EBIT	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)
Electronics	325	431	(24.5)	222	46.7
Electricals	478	555	(14.0)	397	20.4
Consumer durables	(11)	50	NA	(45)	NA
Sunflame	80	-	-	-	-
Total	812	1,000	(19)	528	54

EBIT Margins	Q4FY23	Q4FY22	YoY(bps)	Q3FY23	QoQ(bps)
Electronics	12.0	17.4	(545)	11.6	39
Electricals	9.1	10.8	(168)	9.1	(1)
Consumer Durables	(0.4)	1.7	NA	(1.3)	NA
Sunflame	14.1	-	-	-	-

Source: DART, Company

Exhibit 2: Actual vs Estimates Q4FY23

Particulars (Rs mn)	Actual	DART estimates	Var (%)	Comments
Sales	11,401	10,667	6.9	Growth in Electronics and Electricals segment exceeded our expectation
EBITDA	987	969	1.9	
EBITDA margins %	8.7	9.1	(40 bps)	Other expenses were higher than our estimates
PAT	527	643	(18.0)	Variation due to higher PAT in base on account of tax reversal

Source: DART, Company

Exhibit 3: Change in Estimates

Particulars (Rs mn)	FY24E			FY25E		
	New	Earlier	Change (%)	New	Earlier	Change (%)
Sales (Rs mn)	48,743	49,178	(0.9)	55,816	55,787	0.1
EBITDA (Rs mn)	4,387	4,623	(5.1)	5,928	5,858	1.2
EBITDA Margin (%)	9.0	9.4	(40 bps)	10.6	10.5	10 bps
PAT (Rs mn)	2,659	2,826	(5.9)	3,767	3,769	(0.1)
EPS (Rs)	6.2	6.5	(5.9)	8.7	8.7	(0.1)

Source: DART, Company

We have maintained our revenue estimates for FY24E/FY25E. While softening commodity costs, premiumization and synergy from Sunflame acquisition should support margins, higher A&P expenses and limited price pass on are likely to hamper margins in FY24E. In line with the reduction in EBITDA, we have trimmed our PAT estimates for FY24E. With better scale benefits and as the deal is expected to turn EPS accretive FY25E onwards, we have maintained our margin and EPS estimates for FY25E.

Earnings Call KTAs

Electronics segment – Stabilizers, UPS, Inverters

- In Q4FY23, stabilizers witnessed strong growth and drove top line in the Electronics segment
- In Electronics, margins are optically better in Q2 & Q3 due to inclination of product mix towards refrigerator and TV stabilizers in this period that generate higher margins vs RAC stabilizers & inverters, which sell higher during Q1 and Q2.
- Battery is a perishable and therefore low levels of inventory is maintained. Margins in Q4FY23 continued to remain impacted due to fluctuations in lead prices.

Consumer Durables – Fans, Water Heaters, Kitchen Appliances, Air Coolers

- The company has shifted its chimney procurement from China to local suppliers and does not intend to set up a dedicated facility. However, Sunflame manufactures chimneys in Faridabad and has witnessed margin improvement from this localisation. Going ahead, VGRD may consider the possibility of sourcing chimneys from Sunflame vendors itself.
- Summer demand for fans had been slow on account of both BEE transition and subsequent saturation of channel with non-compliant inventory. Both primary and secondary demand were rather subdued over the quarter.
- Management stated that large portion of fans demand was replacement demand and as consumer spending towards decorative/premium fans increases, the average price per fan will move up. Additionally, BLDC motors drive average prices up by 20-30% per fan.
- The ECD segment is growing rapidly led by new product launches, going ahead water heaters and fans are expected to lead margin improvement in the segment.

Electricals – Wires, Pumps, Switchgears, Modular Switches

- The pumps industry witnessed a difficult year in terms of growth and high competition. The segment saw some improvement in May, however rains during this period has resulted in a high water table. Despite this, initial markers indicate a better outcome for the segment than FY23.
- Wires business was moderate over H1FY23 but slowed down in H2FY23 due to the reduction in commodity prices and subsequent destocking in the channel.

Margins and price revisions

- Management indicated that with the easing of commodity prices, price hikes may not be necessary. Further, GM are expected to improve in Q1FY24 and to historical levels of ~33% going ahead, as RM prices stabilise.

Sunflame Acquisition

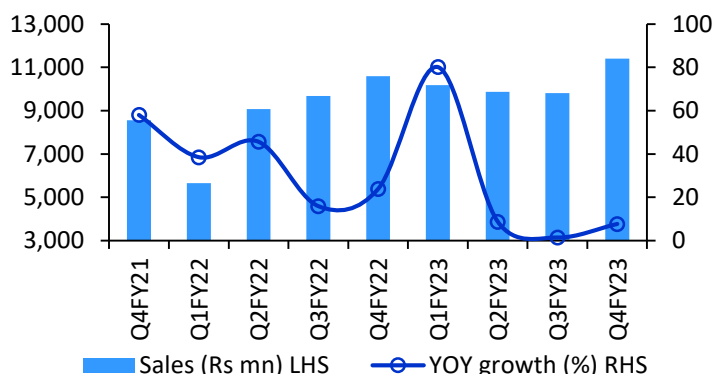
- As per the management, Sunflame revenues are expected to be in the range of Rs 4-4.25bn in FY24. EBITDA margins are likely to be ~12-13%, restricted due to ramp up in A&P spends.
- Sunflame and V-guard will continue to operate as independent entities. Sunflame is mainly a Non-South brand and ~15-18% revenues come from South India.
- Going ahead, there will be synergies in freight, packaging, procurement etc. VGRD will begin with enhancing Sunflame's presence in E-com and MT, since it is already strong in Canteen store department and GT, and then move on to bringing in cost synergies.
- Leadership team for Sunflame is now in place. Over the next 6-9 months, the company will review the portfolio, strengthen channel presence and undertake interventions in technology and process capabilities.

- Acquisition was financed through a mix of internal accruals (~Rs 4bn) and long term debt of Rs 2.75bn. One time cost of Rs 100mn was incurred relating to the acquisition and were recognized in Q4FY23.

Other Highlights

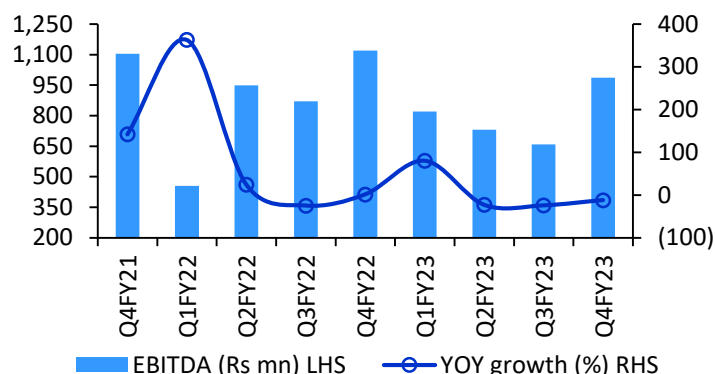
- During the quarter, the North & Western markets were impacted by unseasonal rainfall while demand remained robust in the East and South.
- In last 2-3 years, VGRD has gained MS in the fans and e-commerce space despite being a late entrant in the channel.
- Retail network is growing at a rate of 5-10% with the addition of 3-5k retailers annually. Current retailer counts stands at 50-60k.
- Merger of Simon Electric was completed on 25th March'23. Its existing portfolio largely comprises premium products and its facilities are predominantly underutilized.
- Overall, capex for FY24 is expected to be Rs 1bn.
- The BoD has recommended a final dividend of Rs 1.3 per share (FV of Re 1) for FY23.
- Due to funding of Sunflame acquisition, net debt increased to Rs. 3.8bn as on 31st March 2023, as against net cash of Rs. 490mn as on 31st March 2022.

Exhibit 4: Sales & YoY Growth (%)



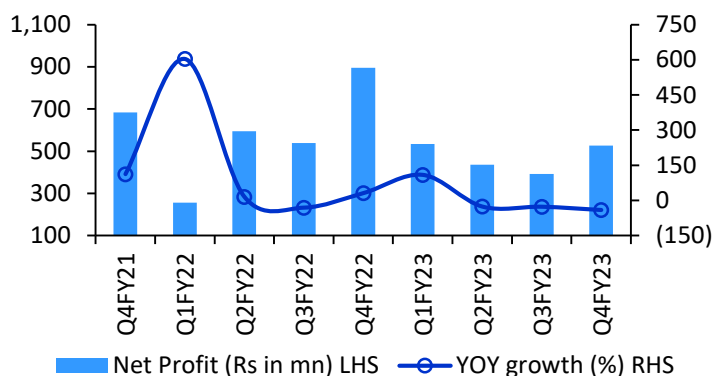
Source: DART, Company

Exhibit 5: EBITDA & YoY Growth (%)



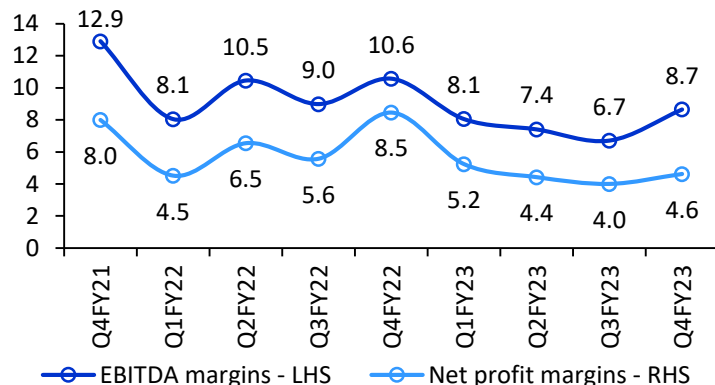
Source: DART, Company

Exhibit 6: Net Profit & YoY Growth (%)



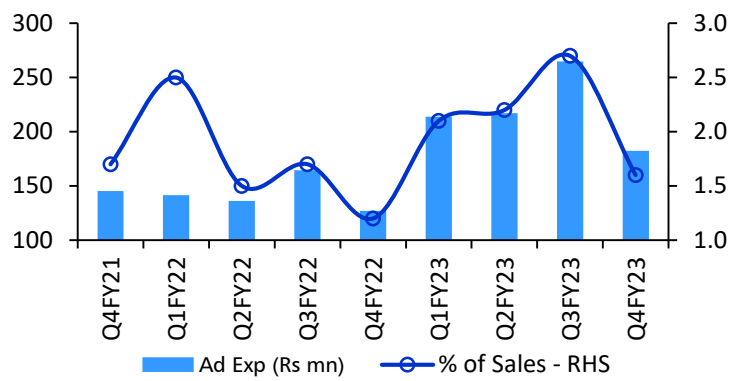
Source: DART, Company

Exhibit 7: EBITDA and Net Profit margins (%)



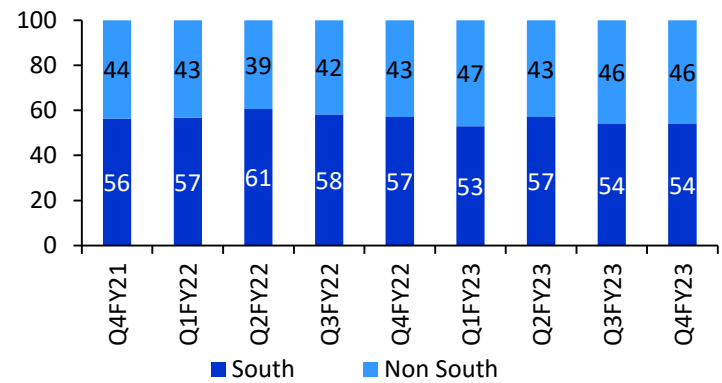
Source: DART, Company

Exhibit 8: Ad Spends (%)



Source: DART, Company

Exhibit 9: Expanding Geographical Reach (%)



Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Revenue	35,002	41,260	48,743	55,816
Total Expense	31,600	38,061	44,356	49,889
COGS	24,139	28,844	33,389	37,453
Employees Cost	2,700	3,029	3,558	4,130
Other expenses	4,761	6,188	7,409	8,305
EBIDTA	3,402	3,199	4,387	5,928
Depreciation	491	644	797	932
EBIT	2,911	2,555	3,590	4,996
Interest	79	162	170	133
Other Income	108	164	178	227
Exc. / E.O. items	0	0	0	0
EBT	2,940	2,557	3,597	5,090
Tax	655	667	938	1,323
RPAT	2,284	1,890	2,659	3,767
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,284	1,890	2,659	3,767

Balance Sheet

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Sources of Funds				
Equity Capital	432	432	432	432
Minority Interest	55	0	0	0
Reserves & Surplus	13,638	15,644	16,443	19,541
Net Worth	14,070	16,076	16,875	19,973
Total Debt	118	4,196	3,800	3,200
Net Deferred Tax Liability	0	951	951	951
Total Capital Employed	14,242	21,223	21,626	24,124

Applications of Funds

Net Block	4,707	12,506	12,783	12,851
CWIP	92	237	237	237
Investments	334	334	200	200
Current Assets, Loans & Advances	15,935	15,992	17,313	21,188
Inventories	8,596	7,674	8,814	10,093
Receivables	4,841	5,687	6,276	7,187
Cash and Bank Balances	608	668	278	1,530
Loans and Advances	37	67	79	92
Other Current Assets	1,853	1,894	1,865	2,285
Less: Current Liabilities & Provisions	6,826	7,846	8,907	10,352
Payables	4,535	4,885	6,276	7,340
Other Current Liabilities	2,291	2,961	2,630	3,012
<i>sub total</i>				
Net Current Assets	9,109	8,146	8,406	10,836
Total Assets	14,242	21,223	21,626	24,124

E – Estimates

Important Ratios

Particulars	FY22A	FY23P	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	31.0	30.1	31.5	32.9
EBIDTA Margin	9.7	7.8	9.0	10.6
EBIT Margin	8.3	6.2	7.4	9.0
Tax rate	22.3	26.1	26.1	26.0
Net Profit Margin	6.5	4.6	5.5	6.7
(B) As Percentage of Net Sales (%)				
COGS	69.0	69.9	68.5	67.1
Employee	7.7	7.3	7.3	7.4
Other	13.6	15.0	15.2	14.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.3	0.2	0.2
Interest Coverage	36.9	15.8	21.1	37.5
Inventory days	90	68	66	66
Debtors days	50	50	47	47
Average Cost of Debt	72.3	7.5	4.3	3.8
Payable days	47	43	47	48
Working Capital days	95	72	63	71
FA T/O	7.4	3.3	3.8	4.3
(D) Measures of Investment				
AEPS (Rs)	5.3	4.4	6.2	8.7
CEPS (Rs)	6.4	5.9	8.0	10.9
DPS (Rs)	1.2	1.3	1.5	1.5
Dividend Payout (%)	22.6	29.7	24.3	17.8
BVPS (Rs)	32.6	37.2	39.0	46.2
RoANW (%)	17.5	12.5	16.1	20.4
RoACE (%)	17.9	11.6	13.2	17.1
RoAIC (%)	25.3	14.9	17.1	22.7
(E) Valuation Ratios				
CMP (Rs)	251	251	251	251
P/E	47.5	57.4	40.8	28.8
Mcap (Rs Mn)	108,497	108,497	108,497	108,497
MCap/ Sales	3.1	2.6	2.2	1.9
EV	108,007	112,024	112,019	110,166
EV/Sales	3.1	2.7	2.3	2.0
EV/EBITDA	31.7	35.0	25.5	18.6
P/BV	7.7	6.7	6.4	5.4
Dividend Yield (%)	0.5	0.5	0.6	0.6
(F) Growth Rate (%)				
Revenue	29.7	17.9	18.1	14.5
EBITDA	11.0	(6.0)	37.1	35.1
EBIT	8.1	(12.2)	40.5	39.2
PBT	3.2	(13.0)	40.7	41.5
APAT	14.7	(17.2)	40.7	41.7
EPS	14.7	(17.2)	40.7	41.7

E – Estimates

Cash Flow

Particulars	FY22A	FY23P	FY24E	FY25E
Profit before tax	2,940	2,557	3,590	4,996
Depreciation & w.o.	491	644	797	932
Net Interest Exp	108	164	178	227
Direct taxes paid	(888)	(488)	(938)	(1,323)
Change in Working Capital	(3,185)	1,414	(651)	(1,178)
Non Cash	180	(50)	(1,213)	0
(A) CF from Operating Activities	(354)	4,241	1,763	3,654
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(1,245)	(1,012)	(1,074)	(1,000)
Free Cash Flow	(1,599)	3,230	689	2,654
(Inc.)/ Dec. in Investments	2	(6,562)	134	0
Other	32	21	0	0
(B) CF from Investing Activities	(1,211)	(7,552)	(940)	(1,000)
Issue of Equity/ Preference	46	20	0	0
Inc./(Dec.) in Debt	2	(6,562)	134	0
Interest exp net	(69)	(162)	(170)	(133)
Dividend Paid (Incl. Tax)	(516)	(561)	(647)	(669)
Other	(41)	16	0	0
(C) CF from Financing	(639)	3,371	(1,214)	(1,402)
Net Change in Cash	(2,204)	60	(391)	1,252
Opening Cash balances	2,811	608	668	278
Closing Cash balances	608	668	278	1,530

E – Estimates

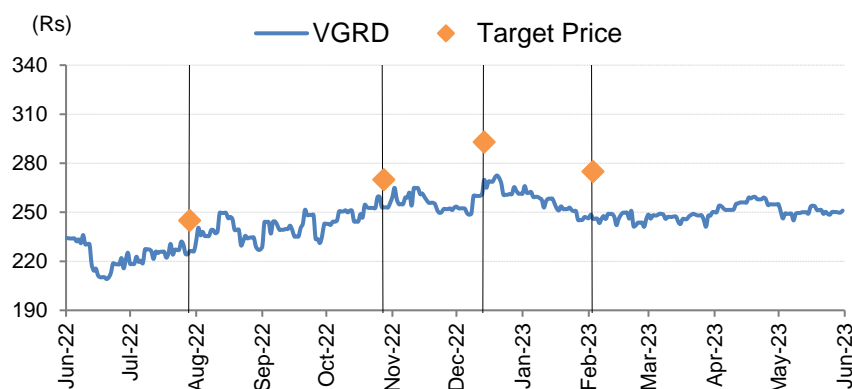
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-22	Reduce	245	226
Oct-22	Reduce	270	253
Dec-22	Accumulate	293	270
Feb-23	Accumulate	275	246

**Price as on recommendation date*

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