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Q3FY21 result review
and reco change

White Goods

Target price Rs215

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 13.3	↑ 2.9
EBITDA	↑ 50.9	↑ 12.5
PAT	↑ 55.5	↑ 13.1

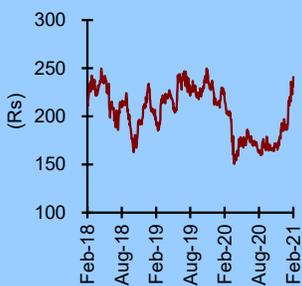
Target Price Revision

Rs215 from Rs157

Shareholding pattern

	Jun '19	Sep '20	Dec '20
Promoters	62.7	62.6	62.6
Institutional investors	26.4	25.7	26.2
MFs and others	11.0	10.5	10.0
FI/ Banks	0.0	0.0	0.0
Insurance	1.6	2.1	2.1
FIs	13.8	13.1	14.1
Others	10.9	11.7	11.2

Price chart



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INDIA

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V-Guard Industries

REDUCE

Downgrade from HOLD

Strong show; growth optionalities lag peers

Rs241

Q2/Q3 results indicate strong bounce-back by most consumer durable / electrical players. V-Guard Industries (VGRD) too has reported its highest quarterly revenues of Rs8.2bn and highest EBITDA margin of 13.7% in Q3FY21. Yet, its overall performance has been weak in FY17-FY21E vs peers (estimated PBT CAGR of ~8.5% compared to ~12.5% for Havells/Crompton) as well as no major traction in emerging categories. Inorganic growth efforts have been small. We factor-in 18% earnings CAGR between FY20-FY23E. Downgrade to REDUCE from Hold with a revised target price of Rs215 (Rs157 earlier) based on FY23E EPS of Rs7.

- **Strong Q3 performance and overall improved outlook lifts FY21E earnings.** We factor-in Rs27bn revenues with 11% EBITDA margin resulting in PAT of Rs2.1bn in FY21E. Q3FY21 revenue growth has been broad-based whereas margin expansion has particularly been higher in electronics (stabilisers, UPS, inverters). Management commentary indicates improved consumer sentiment, festive season and share gain from unorganised sector (this is consistent across players) as the key reasons for growth in Q3FY21. Q4FY21 outlook too is good on back of the broad-based recovery in macro environment and strong traction in focus categories on account of seasonal demand. However, high commodity prices and resultant price hikes remain headwinds. There is an element of lumpy demand in Q3FY21 (due to a relatively weaker H1, upcoming commodity price hikes and weakness in the unorganised sector).
- **Margin vs growth will be a critical business decision going ahead.** Pre-Covid, VGRD's earnings in FY20 were largely driven by margin expansion compared to revenue growth (Q1/Q2/Q3FY20 revenue growth was 10%/4%/5% YoY vs EBITDA growth of 53%/56%/32% respectively). As such, management can look to move some growth back to the topline in an improving demand outlook. However, increasing commodity prices pose a challenge. **If the company continues to invest in brand and distribution, steady-state margins are likely to retrace to 10% in FY22E (FY19 levels) as indicated by the management.**
- **Inorganic/organic growth efforts have lagged expectations.** VGRD's PBT growth is likely to clock ~7% CAGR between FY17-FY21E. This has been a weak show and the inorganic efforts (acquisition of GUTS Electro-Mech and stake purchase in Gegadyne) remain small in size. Post the launch of water heaters, there is also no new product in the near-term pipeline.
- **Downgrade to REDUCE from Hold.** We factor-in 15% revenue CAGR during FY20-FY23E with EBITDA margin of ~11%, which results in PAT of ~Rs3bn in FY23E. Based on 30x FY23E, our target price works out to Rs215 (earlier: Rs157).

Market Cap	Rs104bn/US\$1.4bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	VGUA.BO / VGRD IN	Revenue (Rs mn)	25,029	27,282	32,193	37,988
Shares Outstanding (mn)	429.5	Net Income (Rs mn)	1,882	2,133	2,538	3,075
52-week Range (Rs)	255/149	EPS (Rs)	4.4	5.0	19.0	21.2
Free Float (%)	37.4	% Chg YoY	12.0	5.0	5.9	7.2
FII (%)	14.1	P/E (x)	54.4	48.0	40.3	33.3
Daily Volume (US\$/000)	2,369	CEPS (Rs)	5.1	5.8	6.8	8.1
Absolute Return 3m (%)	43.1	EV/E (x)	39.3	33.9	28.3	23.8
Absolute Return 12m (%)	8.2	Dividend Yield (%)	0.4	0.2	0.4	0.5
Sensex Return 3m (%)	26.4	RoCE (%)	24.0	22.8	23.2	23.9
Sensex Return 12m (%)	26.5	RoE (%)	18.8	17.9	18.1	18.6

Please refer to important disclosures at the end of this report

Table 1: Q3FY21 result review

Q3FY21 revenue growth has been broad-based.

Margin expansion has particularly been higher in electronics (stabilisers, UPS, inverters).

Ad-spends remained lower at 0.9% of the revenues in Q3FY21 vs 2.4% in Q3FY20

South and Non-South markets witnessed YoY growth of 25.3% and 43%, respectively. Non South contributed 41% of the revenues in Q3FY21 vs 38% in Q3FY20

Strong cash flow generation in 9MFY21 of Rs3.7bn vs Rs2.6bn in 9MFY20

(Rs mn)	Q3FY21	Q3FY20	Chg. YoY (%)	Q2FY21	Chg. QoQ (%)
Total Sales	8,274	6,266	32.0	6,166	34.2
Cost of Materials consumed	2,716	1,796	51.3	2,470	10.0
Purchases of stock in trade	3,270	2,228	46.8	2,151	52.0
Changes in inventories	(413)	163		(402)	
Employee wages	627	584	7.4	502	24.9
Other Expenses	938	902	4.0	705	33.0
Total Cost	7,138	5,672	25.8	5,427	31.5
EBITDA	1,136	594	91.1	739	53.7
EBITDA margin (%)	13.7	9.5		12.0	
Depreciation	94	73		84	
Other Income	54	54		66	
EBIT	1,096	575	90.4	721	51.9
EBIT margin (%)	13.2	9.2		11.7	
Finance Cost	11	10		10	
PBT	1,084	566	91.7	711	52.5
Tax	314	137		211	
PAT	770	429	79.5	500	54.2
PAT margin (%)	9.3	6.8		8.1	

Source: Company data, I-Sec research

Table 2: Segment highlights

	Q3FY21	Q3FY20	Chg. YoY (%)	Q2FY21	Chg. QoQ (%)
Revenue					
Electronics	2,074	1,538	34.9	1,710	21.3
(% share)	25	25		28	
Electrical/Electro-mechanical	3,559	2,709	31.4	2,823	26.1
(% share)	43	43		46	
Consumer Durables	2,641	2,020	30.8	1,634	61.7
(% share)	32	32		26	
Total	8,274	6,266	32.0	6,166	34.2
EBIT					
Electronics	512	244	109.6	306	67.6
Electrical/Electro-mechanical	313	208	50.2	266	17.5
Consumer Durables	264	113	133.5	136	
Less interest	11	10		10	
Add unallocable	6	9		14	
Total	1,084	565		712	
EBIT (%)			Chg. in bps		Chg. in bps
Electronics	24.7	15.9	880	17.9	681
Electrical/Electro-mechanical	8.8	7.7	110	9.4	(64)
Consumer Durables	10.0	5.6	440	8.3	168
Segment Assets			Chg. YoY (%)		Chg. QoQ (%)
Electronics	2,261	2,345		1,660	
Electrical/Electro-mechanical	4,114	3,929		3,453	
Consumer Durables	4,079	3,725		3,644	
Unallocable	6,748	4,811		6,437	
Total	17,202	14,811	16.1	15,193	13.2
Segment Liabilities					
Electronics	1,560	759		852	
Electrical/Electro-mechanical	1,287	1,440		1,384	
Consumer Durables	5,872	1,487		1,371	
Unallocable	1,332	982		1,085	
Total	2,018	4,667	(56.8)	4,692	(57.0)
Capital Employed					
Electronics	11,330	1,586		808	
Electrical/Electro-mechanical	2,018	2,490		2,069	
Consumer Durables	2,519	2,238		2,273	
Unallocable	5,461	3,830		5,352	
Total	11,330	10,143	11.7	10,501	7.9

Source: Company data, I-Sec research

Change in earnings and valuation

We factor 15% revenue CAGR during FY20-FY23E with EBITDA margin of ~11%, which results in PAT of ~Rs3bn in FY23E. Based on 30x FY23E, our target price stands at Rs215 (Rs157 earlier).

Table 3: Change in earnings estimates

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Chg. (%)	Old	New	Chg. (%)	Introduce
Revenue	24,072	27,282	13.3	31,294	32,193	2.9	37,988
EBITDA	1,989	3,002	50.9	3,143	3,537	12.5	4,169
PAT	1,372	2,133	55.5	2,243	2,538	13.1	3,075

Source: I-Sec research

Summary financials

Table 4: Profit & Loss statement
(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income	25,029	27,282	32,193	37,988
Operating Expenses	22,449	24,280	28,656	33,819
EBITDA	2,580	3,002	3,537	4,169
% margins	10.3	11.0	11.0	11.0
Depreciation & Amortization	294	335	388	402
Gross Interest	42	10	10	-
Other Income	251	180	250	340
PBT	2,496	2,837	3,389	4,106
Add: Extra ordinaries	0	0	0	0
Less: Taxes	613	704	851	1,032
Reported Net Income	1,882	2,133	2,538	3,075
Recurring Net Income	1,882	2,133	2,538	3,075

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	10,605	13,328	16,069	19,320
<i>Cash and equivalent</i>	1,476	1,071	2,840	3,814
Total Current Liabilities	3,961	4,729	5,468	6,557
Net Current Assets	6,643	8,599	10,600	12,763
Loans and advances	431	431	431	431
Net Fixed Assets with CWIP	3,513	3,478	3,590	3,971
Total Assets	10,588	12,509	14,622	17,166
Liabilities				
Borrowings	128	128	128	128
Other LT liability	372	372	372	372
Provisions	97	97	97	97
Deferred tax Liability	-	-	-	-
Equity Share Capital	428	428	428	428
Face Value per share (Rs)	1.0	1.0	1.0	1.0
Reserves & Surplus	9,526	11,447	13,560	16,104
Net Worth	9,991	11,912	14,025	16,569
Total Liabilities	10,588	12,509	14,622	17,166

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow ex WC	1,928	2,298	2,686	3,137
Working Capital Changes	(515)	(2,361)	(232)	(1,189)
Capital Commitments	(846)	(300)	(500)	(783)
Free Cashflow	568	(363)	1,954	1,165
Cashflow from Investing Activities	(1,118)	(120)	(250)	(443)
Inc. (Dec) in Borrowings	(13)	-	-	-
Dividend paid with taxes	493	212	425	531
Cashflow from Financing Activities	(915)	(222)	(435)	(531)
Chg. in Cash & Bank balance	(619)	(405)	1,769	974

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	4.4	5.0	5.9	7.2
Diluted Recurring EPS	4.4	5.0	5.9	7.2
Recurring Cash EPS	5.1	5.8	6.8	8.1
Dividend per share (DPS)	1.0	0.5	1.0	1.3
Book Value per share	23.3	27.8	32.7	38.7
FCF per share	1.3	(0.8)	4.6	2.7
Growth Ratios (%)				
Sales	(3.5)	9.0	18.0	18.0
EBITDA	15.0	16.3	17.8	17.9
Recurring Net Income	12.0	13.3	19.0	21.2
Valuation Ratios (x)				
P/E	54.4	48.0	40.3	33.3
P/CEPS	47.0	41.5	35.0	29.4
P/BV	10.2	8.6	7.3	6.2
EV / EBITDA	39.3	33.9	28.3	23.8
EV / FCF	178.5	(280.8)	51.2	85.0
FCF Yield (%)	0.6	(0.4)	1.9	1.1

Operating Ratios (%)

Inventory Days	70	68	62	61
Receivables (days)	47	80	72	72
Payables (days)	44	50	50	50
Working Capital days	75	101	88	86
Net D/E Ratio (x)	(0.2)	(0.1)	(0.0)	(0.2)
Net D/EBITDA Ratio (x)	(0.7)	(0.4)	(0.2)	(0.7)
Asset Turnover (x)	2.4	2.2	2.2	2.2

Return/Profitability Ratios (%)

Recurring Net Income Margins	7.5	7.8	7.9	8.1
RoCE	24.0	22.8	23.2	23.9
RoNW	18.8	17.9	18.1	18.6
Dividend Payout Ratio	0.23	0.10	0.17	0.17
EBITDA Margins	10.3	11.0	11.0	11.0

Source: Company data, I-Sec research

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