

# V-Guard Industries

## Demand outlook remains healthy, but margins to witness some pressure

- ✓ **Our View** – After few quarters of underperformance V-Guard has managed to deliver both on the revenue and margin front, with beat on both fronts. We would watch for consistency of revenue and earnings growth given company has been not been able to deliver consistent revenue and profit growth. We maintain our cautious view on the stock for now as peers like Crompton and Havells look better placed.
- ✓ **Business Update** - Positive market sentiment during the festive season, reflected in significant growth reported across all markets and product categories. Some latent demand from earlier months, re-stocking of distribution channels and resumption of construction activities also enabled growth. Both south and Non-south delivered strong growth, company on track to achieve 50% revenue from non-south region. Growth is expected on base of Q4FY19 as Q4FY20 was washout as secondary sales continue to remain favorable. Expect summer products to come back strongly with some pent-up demand.
- ✓ **Margins** - At the gross margin level, there was some impact from the recent increase in commodity prices and company will continue to take pricing actions as appropriate over the next few months. Pricing action is expected in Q4 to cover increased commodity costs. Gross margin will remain under pressure for next 3-4 months. EBITDA Margins have improved on back of lower A&P spends. Target is to improve EBITDA margin by 100bps every two years. Margin improvement from the levels of FY19 is possible in FY22. On an average basis 4-7% of price increase is required to offset commodity price inflation.
- ✓ **Stabilizers** – Stabilizers has grown well in Q3 on back of pent up demand and pre-buying and expected to see catch up in Q4. Inventory for stabilizers is higher as there was some pre-buying in Q3.
- ✓ **Demand Drivers** – Smaller players are not back to their full operation which is leading to higher share of business coming to larger players. Low interest rate is leading to improvement in real estate which is sustainable in nature. 1) Evolving category mix and product mix, 2) GTM with focus on e-commerce and modern trade, 3) Distribution enhancement in smaller town and rural along with increase in non-south region and 4) In-organic expansion will generate growth for the company.
- ✓ **Capital deployment** – Primary focus is to look to use cash to enter adjacent categories including in-organic growth. If company is not able to find any avenue to deploy cash for elongated period then it would be returned back to investors.
- ✓ **Channel inventory and mix** – Channel inventory is at healthy level while in some product categories like water heaters it is below historic low levels and dealers are in position to take and replenish inventory. E-commerce and modern retail contributes 14-15% of revenue excluding wires. Expect to add 3000 to 4000 retailers every year in non-south region. Company has 40,000 retail points with around 18,000 in south and balance in non-south.
- ✓ **Acquisition** - Company is looking for acquisition mainly in durable space (small appliances) where company has limited capabilities.

### HIMANSHU NAYYAR

Lead Analyst

himanshu.nayyar@ysil.in

+91 9920915754



### AAKASH FADIA

aakash.fadia@ysil.in

### AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

- ✓ **Price hikes and new launches** - Wires 15-20% higher and have completely passed on. In Q3 excluding wires 3-4% of prices have been taken. Company has entered in water purifier in Q3 and is planning to expand kitchen portfolio like entering hoods and hobs. New launches have been done on e-commerce and some company launched outlets. Company would be spending Rs40-70mn in developing platform for water purifiers.
- ✓ **Supply chain** - Company is facing supply chain issues in Fans, modular switches and switchgears and mixers as vendors are not upto the full capacities. V-guard is likely to work with higher inventory levels till supply chain are fully restored. Import constitute only 4-5% of the finished goods.

## Exhibit 1: Quarterly Summary

Rs mn	Q3FY20	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Net Sales	6,266	6,167	8,274	32.0	34.2
Raw Material	4186	4220	5573	33.1	32.1
as % of sales	66.8	68.4	67.4		
Employee Cost	584	502	627	7.4	24.9
as % of sales	9.3	8.1	7.6		
Other operating expenses	902	705	938	4.0	33.0
as % of sales	14.4	11.4	11.3		
Total Expenditure	5672	5427	7138	25.8	31.5
EBITDA	594	739	1136	91.1	53.6
EBITDA Margin	9.5	12.0	13.7		
Other Income	54	66	54	(0.5)	(18.2)
EBIDT	649	806	1190	83.4	47.7
Depreciation	73	84	94	28.6	12.7
Interest	9.9	10.4	11.3	14.5	8.5
PBT	565	712	1084	91.8	52.4
Exceptional	0.0	0.0	0.0		
PBT After Exceptional	565	712	1084	91.8	52.4
Tax	136	211	314	131.0	48.6
ETR	24.1	29.7	29.0		
PAT	429	500	770	79.3	54.0

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Rs mn	Q3FY20	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Electronics	1,538	1,710	2,074	34.9	21.3
Electricals	2,709	2,823	3,559	31.4	26.1
Consumer durables	2,020	1,634	2,641	30.8	61.7
Net Sales	6,266	6,167	8,274	32.0	34.2
<b>PBIT</b>					
Electronics	244	306	512	109.6	67.6
PBIT %	15.9	17.9	24.7		
Electricals	208	266	313	50.2	17.5
PBIT %	7.7	9.4	8.8		
Consumer durables	113	136	264		
PBIT %	5.6	8.3	10.0		
Total PBIT	566	708	1,089	92.5	53.9
Finance Costs	10	10	11	14.5	8.5
Unallocable expense	-9	-14	-6	(33.0)	(55.1)
as % of sales	-0.2	-0.2	-0.1		
Exceptional	0	0	0		
PBT	565	712	1084	91.8	52.4

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### YES Securities (India) Limited

**Registered Address:** Unit No. 602 A, 6th Floor, Tower 1 & 2,  
One International Center, Senapati Bapat Marg, Elphinstone Road,  
Mumbai - 400013, Maharashtra, India  
Email: [research@ysil.in](mailto:research@ysil.in) | Website: <https://yesinvest.in>

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**Details of Compliance Officer:** Vaibhav Purohit,  
Email: [compliance@ysil.in](mailto:compliance@ysil.in), Contact No.: +91-22-33479208

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