



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score NEW

ESG RISK RATING 28.69
Updated Oct 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 11,267 cr
52-week high/low:	Rs. 269/181
NSE volume: (No of shares)	3.5 lakh
BSE code:	532953
NSE code:	VGUARD
Free float: (No of shares)	19.0 cr

Shareholding (%)

Promoters	55.9
FII	12.9
DII	18.1
Others	13.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.8	8.4	13.0	11.0
Relative to Sensex	-2.3	5.1	-1.4	3.4

Sharekhan Research, Bloomberg

V-Guard Industries Ltd

Sunflame acquisition - a good inorganic bet

Capital Goods	Sharekhan code: VGUARD		
Reco/View: Buy	↔	CMP: Rs. 261	Price Target: Rs. 320 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain our Buy rating on V-Guard Industries Limited (V-Guard) with a revised PT of Rs. 320, as we are positive on its acquisition of Sunflame Enterprises and bullish on its organic growth prospects.
- The combined kitchen appliances business would have revenues of ~Rs. 500 crore and will set the tone for V-Guard's ambition to become a significant player in the domestic kitchen appliances industry.
- This would help V-Guard unlock synergy benefits in areas like geography, product portfolio and channels since Sunflame has strong presence in north and west through traditional channels, while V-Guard is predominantly present in south region and is active on e-Commerce and modern trade platforms.
- The acquisition is reasonably priced at EV/Sales of ~1.9x. Although revenue accretive, the acquisition maybe earnings neutral/marginally dilutive for FY2024E (high interest cost, decline in other income due to lower cash). We expect revenues/PAT CAGR of ~19%/~23% over FY2022-FY2025E (not factoring in Sunflame acquisition).

V-Guard Industries Limited's (V-Guard's) acquisition of leading kitchen appliances brand - Sunflame Enterprises Private Ltd. (SEPL) is in line with its strategy to become a significant player in the domestic kitchen appliances industry which currently forms just 4-5% of its total revenue. The Sunflame brand has a pan-India presence with a strong brand recall. Its wide portfolio, product development capabilities and the recently established state-of-the-art integrated manufacturing facility would help V-Guard scale up its kitchen appliances business. The company had performed consistently well with steady cash flows and strong operating margin of 12-13%. This may also help in unlocking synergy benefits in areas like geography, product portfolio and channels since Sunflame has strong presence in north and west, while V-Guard is pre-dominantly present in the south market. The acquisition is reasonably priced at EV/sales of 1.9x. Although revenue accretive, the acquisition maybe earnings neutral or even marginally dilutive for FY24E due to rise in interest cost and decline in other income due to lower cash. However, in the long run, a meaningful contribution from this acquisition would help grow the bottom-line as well. We expect Revenue/PAT CAGR of ~19%/~23% over FY2022-FY2025E EPS (not factoring in Sunflame acquisition). We retain a Buy on V-Guard with a revised price target (PT) of Rs. 320, rolling forward our estimates to September FY2024E EPS.

V-Guard acquires Sunflame for Rs 660 crore

V-Guard acquired 100% stake in Haryana based Sunflame Enterprises Private Ltd. (SEPL) for a consideration of Rs 660 crore, on a cash-free, debt-free basis, subject to closing adjustments. The transaction is expected to close by mid-January 2023. Sunflame is one of the leading players in the kitchen appliances space in India. The company offers a wide product portfolio including cooktops, chimneys, pressure cooker, mixer grinder and small kitchen appliances that caters to every consumer segment. Sunflame recorded Revenue/PBT/PAT of Rs 349.8/44.2/33 crore in FY2022.

Sunflame acquisition could fast track V-Guard's efforts to scale up its kitchen appliances business

Kitchen Appliances is a fast-growing but a small category in consumer durables segment of V-Guard with ~Rs 150-160 crore of revenue on an annual basis. In kitchen appliances, the company's product range includes induction cooktops, mixer-grinders, gas cooktops and rice cookers. These products are margin accretive and are also less seasonal. The acquisition is in line with V-Guard's strategy to become a significant player in the domestic kitchen appliances industry. The Sunflame brand has a pan India presence with a strong brand recall. Sunflame's wide portfolio, product development capabilities and the recently established state-of-the-art integrated manufacturing facility would help V-Guard scale up its kitchen appliances business. This may also help in unlocking synergy benefits in areas like geography, product portfolio and channels since Sunflame has strong presence in north and west market, while V-Guard sells kitchen appliances pre-dominantly in the south market. We believe, the acquisition shall help V-Guard in strengthening its kitchen appliances business.

Reasonably-priced acquisition but could be earnings neutral/ marginally dilutive for FY2024E

In our view, the acquisition is reasonably priced at EV/sales of 1.9x compared to acquisition of Butterfly Gandhimathi Appliances at EV/Sales of ~2.5x by Crompton Greaves Consumer Electricals. However, the company would have to resort to debt to partly finance the acquisition and hence we expect rise in interest cost. On a preliminary estimate basis, we expect Sunflame's acquisition to lead to incremental revenue of ~10%. However, increase in interest cost and decline in other income (as cash will be utilized to fund the acquisition) may off-set or reduce the incremental net profit. Hence, we believe although revenue accretive, the acquisition maybe earnings neutral or even marginally dilutive for FY2024E. However, in the long run, improved cash flows from the business and acquisition shall help the company repay debt and this shall lead to meaningful contribution from this acquisition to the bottom-line as well.

Revision in estimates – We have broadly maintained our FY2022-FY2024 estimates and introduced FY2025 estimates.

Our Call

Valuation – We maintain Buy with a revised PT of Rs. 320: We are positive on V-Guard's acquisition of Sunflame as it would help the company expand its presence in fast growing kitchen appliances segment. The acquisition has a huge potential as V-Guard can leverage on Sunflame's strong presence in traditional channels and scale up its presence in modern trade and e-commerce platforms. Further, complementary markets in terms of ideal north and south mix bodes well for the growth of the business. Although EPS neutral or marginally dilutive in FY2024E, we expect this acquisition to contribute meaningfully in the long-term. Hence, we continue to maintain Buy on the stock with a revised PT of Rs. 320.

Key Risks

Relatively weak demand environment in some of the product categories may affect earnings. Intense competition in some of its business segments is a key concern.

Valuation (Standalone)

Particulars	FY22	FY23E	FY24E	FY25E
Net sales	3,475	4,098	4,913	5,862
OPM (%)	9.6	9.6	10.4	10.7
Net profit	227	251	335	421
% Y-o-Y growth	14.0	10.8	33.1	25.8
Adj. EPS (Rs.)	5.3	5.8	7.8	9.8
P/E (x)	49.7	44.8	33.7	26.8
P/B (x)	8.0	7.0	6.0	5.1
EV/EBIDTA (x)	32.2	26.9	20.6	16.5
RoNW (%)	17.4	16.7	19.2	20.5
RoCE (%)	22.6	22.8	26.1	27.8

Source: Company; Sharekhan estimates

V-Guard acquires Sunflame for Rs. 660 crore

V-Guard acquired 100% stake in Haryana-based Sunflame Enterprises Private Ltd. (SEPL) for Rs 660 crore, on a cash-free, debt-free basis, subject to closing adjustments. The transaction is expected to close by mid-January 2023. SEPL is one of the leading players in the kitchen appliances space in India. The company offers a wide product portfolio including cooktops, chimneys, pressure cooker, mixer grinder and small kitchen appliances that caters to every consumer segment. SEPL recorded a Revenue/PBT/PAT of Rs 349.8/44.2/33 crore in FY2022.

Kitchen appliances is a small part of V-Guard's consumer durables segment

V-Guard's consumer durables segment delivered revenues of Rs 1,060 crore and 636 crore in FY22/H1FY23 respectively and had weak EBIT margin of 1.6%/ 2.1% respectively due to subdued consumer sentiments owing to inflationary pressures. Kitchen appliances is a fast growing but a small category in consumer durables with Rs. 150-160 crore of revenue on an annual basis. In kitchen appliances, the company's product range includes induction cooktops, mixer-grinders, gas cooktops and rice cookers. These products are margin accretive and are also less seasonal. Off late, company has expanded its kitchen appliances range with the launch of new products such as water purifiers, breakfast appliances, kitchen hoods and chimneys. Currently, these are offered only on e-Commerce platforms and are gaining good traction. Kitchen appliances business is currently mostly focused in the South and growing much faster than the overall company growth. The company is also working on putting in place a manufacturing facility which should come up in the next 12-18 months so that its competitiveness can be enhanced.

Sunflame acquisition could fast track V-Guard's efforts to scale up its kitchen appliances business

The acquisition is in line with V-Guard's strategy to become a significant player in the domestic kitchen appliances industry. The Sunflame brand has a pan India presence with a strong brand recall. Sunflame's wide portfolio, product development capabilities and the recently established state-of-the-art integrated manufacturing facility would help V-Guard scale up its kitchen appliances business. This may also help in unlocking synergy benefits in areas like geography, product portfolio and channels since Sunflame is a Pan India brand as, while V-Guard sells kitchen appliances pre-dominantly in the south market. We believe, the acquisition shall help V-Guard in strengthening its kitchen appliances business.

Post raising of debt, debt/equity to be comfortable at 0.30-.35x.

The transaction is likely to be funded through internal accruals and debt. V-Guard has cash and investments of ~Rs. 170 crore which would be utilized to fund the acquisition. The rest of the amount of Rs 450-500 crore would be funded by debt but since V-Guard currently has total debt of ~Rs 10 crore, increase in debt would still keep its debt/equity ratio in the comfortable range of 0.30-0.35x.

Reasonably priced acquisition but could be earnings neutral/ marginally dilutive for FY2024E

In our view, the acquisition is reasonably priced at EV/sales of 1.9x compared to acquisition of Butterfly Gandhimathi Appliances at EV/Sales of ~2.5x by Crompton Greaves Consumer Electricals. However, the company would have to resort to debt to partly finance the acquisition and hence we expect rise in interest cost. On a preliminary estimate basis, we expect Sunflame's acquisition to lead to incremental revenue of ~10%. However, increase in interest cost and decline in other income (as cash will be utilised to fund the acquisition) may off-set or reduce the incremental net profit. Hence, we believe although revenue accretive, the acquisition maybe earnings neutral or even marginally dilutive for FY2024E. However, in the long run improved cash flows from the business and acquisition shall help the company repay debt and this shall lead to meaningful contribution from this acquisition to the bottom-line as well.

Key conference call takeaways

- ◆ **Sunflame is a well-established name with high brand recall** - V-Guard stated that the company has been in talks with Sunflame from the last 5-6 years and the latter has been fairly consistent in performance and has steady and strong cash flows. The company has a strong brand recall. Stoves, cooking range, induction tops, hoods, hobs, chimneys comprise of 40-45% of the total revenue. Sunflame has broader kitchen range than V-Guard.
- ◆ **Consistent performance in the last few years** - On an average, Sunflame's revenue has grown at a CAGR of 6-7% over the last 4-5 years and bottom line has delivered 5-6% growth. The sharp y-o-y increase in FY22 revenue is a result of price increase of 6-8% and merger of some of the other promotor businesses into the company. The company has EBITDA margin of 12-13% and FY22 PAT stood at ~Rs 33 crore.

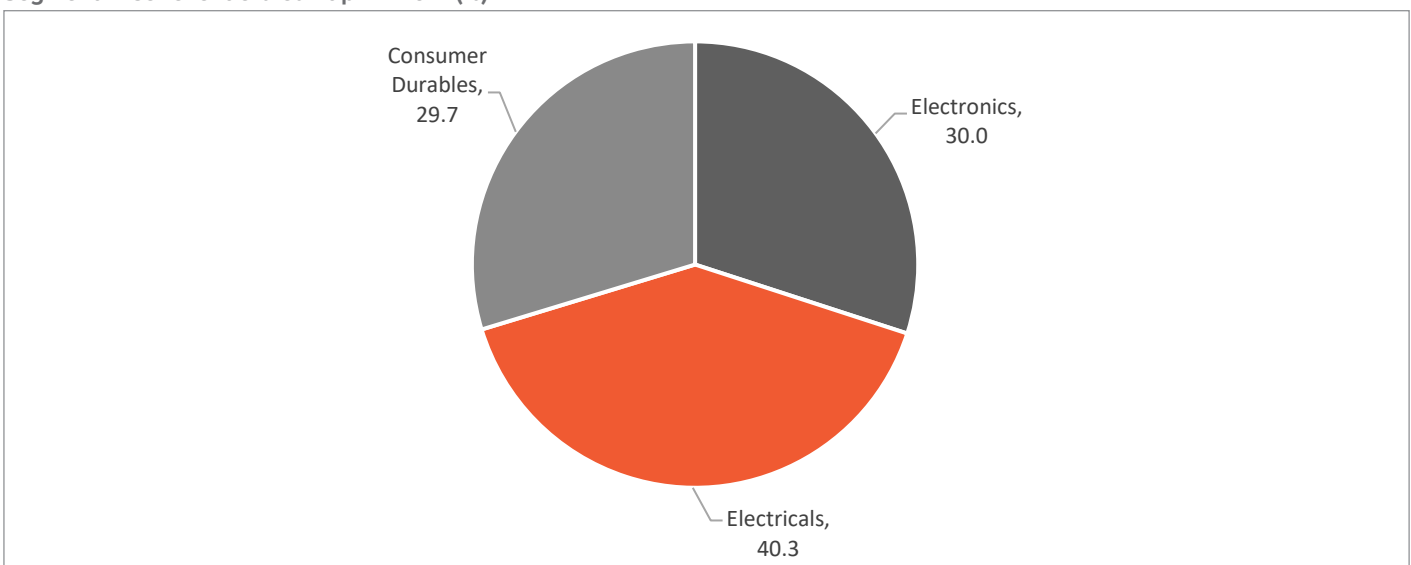
- ♦ **Strong presence in non-south regions** - Sunflame derives 80% of revenue from north and west regions. On the contrary, V-Guard's kitchen appliances business of Rs 150-160 crore is largely based in south with marginal presence in north through e-commerce channels. Hence, Sunflame's acquisition would complement V-Guard's geographical reach and help the company establish pan-India presence in the long term.
- ♦ **Under penetration in e-Commerce channels** - Sunflame is highly under-penetrated in modern retail and e-commerce channels as it derives 90% of its business from traditional utensil and consumer trade outlets. However, in kitchen appliances industry, 40-45% of sales are derived through e-commerce and modern trade channels. Hence, expansion through e-commerce and modern trade channels would be a key strategy that V-Guard would pursue to scale up the business.
- ♦ **Higher share of in-house manufacturing** - Sunflame's Faridabad manufacturing unit has been set up a year ago to manufacture chimneys/hoods, which is the second largest product for the company. Earlier, these products were imported from China. Currently, the company has 65-70% products like cooktops, induction and chimneys being manufactured in-house. The company currently has adequate capacity and land for further expansion is available at the manufacturing unit.
- ♦ **Complementary trade channels** - Sunflame is widely present in kitchen channels like vessel stores where V-Guard does not have a presence. While V-Guard is widely present in white goods and consumer electrical channels. Hence, it would increase the channel presence of its combined kitchen appliances business.
- ♦ **Sunflame to continue as independent brands** - V-Guard intends to keep the Sunflame brand and would continue selling V-Guard branded kitchen appliances as well. Sunflame would operate as a subsidiary of V-Guard. Thus, the companies would be using each other's network but would continue as independent brands.
- ♦ **Near-term growth strategy** - Expansion into non-south markets and scaling up modern trade and e-commerce channels for Sunflame brand are the low hanging fruits that V-Guard would be pursuing.
- ♦ **Acquisition would be EPS neutral for FY24E** - As the company would have to raise debt and utilize cash for the acquisition, higher interest cost and loss of other income could lead to FY2024 being EPS neutral. Thereafter, the company expects improvement in earnings.

V-Guard's current offerings

Diversified product basket	
Electronics	Stabilisers, inverters, batteries, solar power system
Electrical	House wiring cables, switchgears, modular switches, pumps
Consumer Durables	Solar and electric water heaters, fans , air coolers, and kitchen appliances

Source: Company, Sharekhan Research

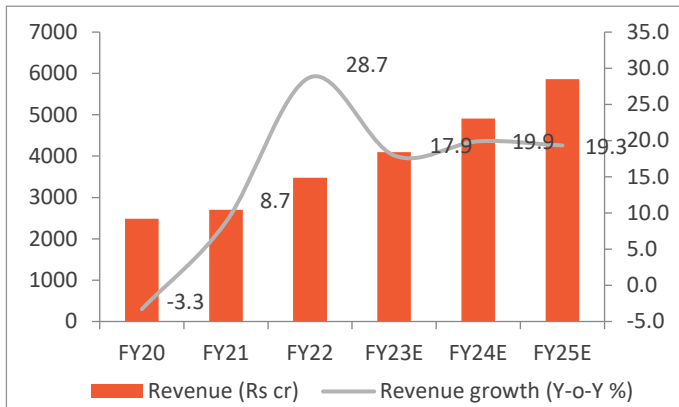
Segment-wise revenue break-up- FY2022(%)



Source: Company, Sharekhan Research

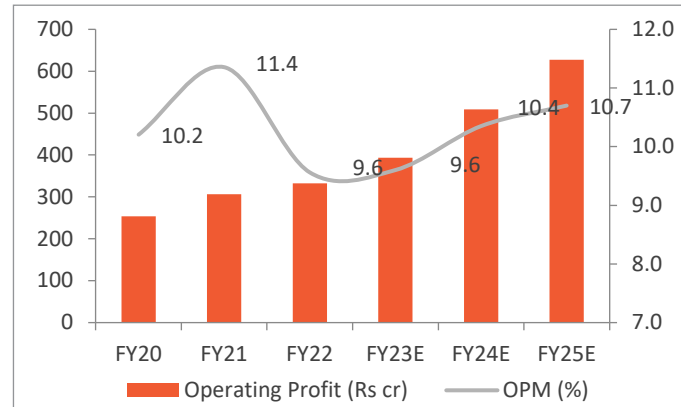
Financials in charts

Revenue growth trend



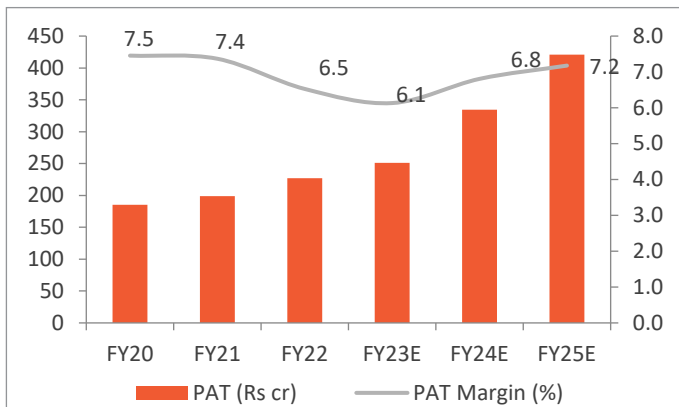
Source: Company, Sharekhan Research

Operating profit and margin trend



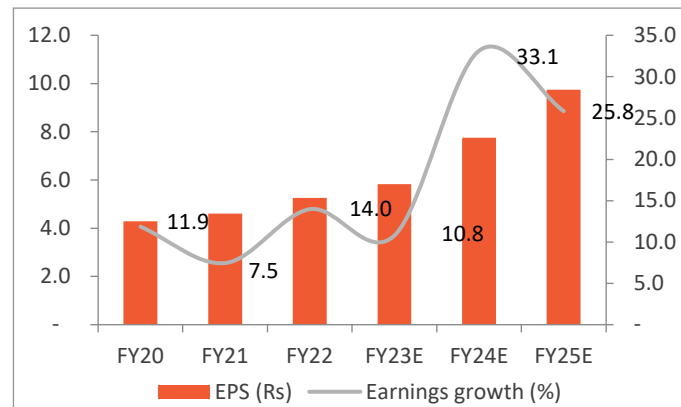
Source: Company, Sharekhan Research

Net profit and margin trend



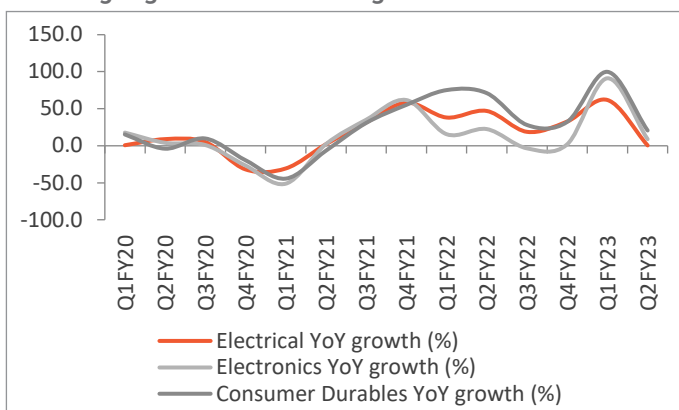
Source: Company, Sharekhan Research

EPS growth trend



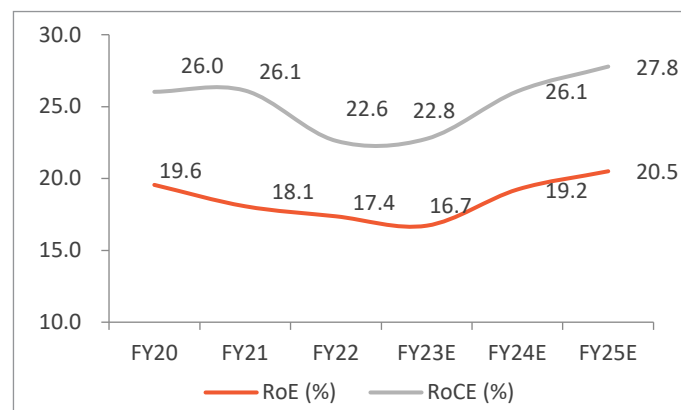
Source: Company, Sharekhan Research

Quarterly segment-wise revenue growth trend



Source: Company, Sharekhan Research

Return Ratios trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Uncertain environment likely to normalise in the medium term

The consumer durable/electrical industry has seen good demand since H2FY2021, the momentum of which is expected to continue further. The government's Atmanirbhar Bharat initiative is expected to benefit with capital subsidies and industrial benefit policies being doled out to give a push to in-house manufacturing. Further, demand for electricals and electronics from the housing sector has been robust due to low-interest cost and ease of financing. The management expects better supply security and margin improvement with an increase in in-house manufacturing. Healthy cash positions are likely to aid companies in inorganic growth opportunities, as organised players benefit from the tough environment.

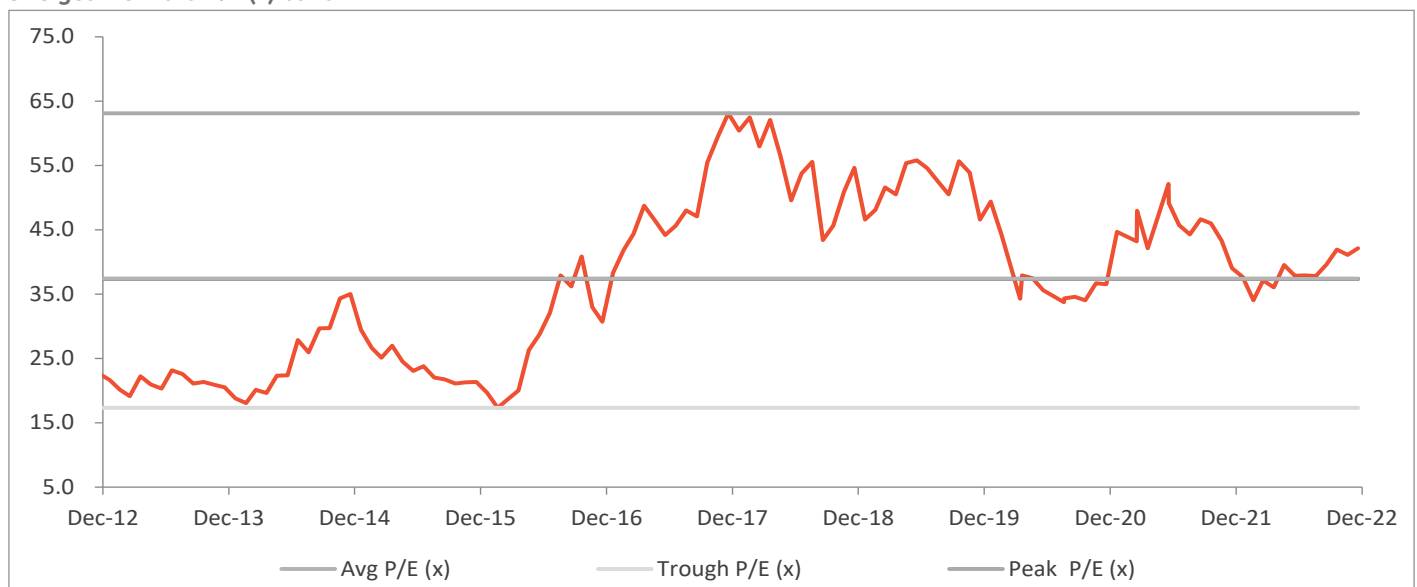
■ Company outlook - Varied growth levers

The management expects healthy growth to sustain going forward. The company remains focused on 1) evolving category mix and product mix, 2) go-to-market with a focus on e-commerce and modern trade, and 3) distribution enhancement in smaller town and rural along with an increase in the non-south region. The company expects to add 3,000-4,000 retailers every year in the non-south region. V-Guard has 40,000 retail points – around 18,000 in the south and balance in non-south with continuous additions. Overall, management is focusing on maintaining a healthy cash position, cost rationalisation, and expediting digitisation. Its acquisition of leading kitchen appliances brand - Sunflame Enterprises Private Ltd. (SEPL) is in line with its strategy to become a significant player in the domestic kitchen appliances industry which currently forms just 4-5% of its total revenues.

■ Valuation - We maintain Buy with a revised PT of Rs. 320

We are positive on V-Guard's acquisition of Sunflame as it would help the company expand its presence in fast growing kitchen appliances segment. The acquisition has a huge potential as V-Guard can leverage on Sunflame's strong presence in traditional channels and scale up its presence in modern trade and e-commerce platforms. Further, complementary markets in terms of north and south mix bodes well for the growth of the business. Although EPS neutral or marginally dilutive in FY24E, we expect this acquisition to contribute meaningfully going forward. Hence, we continue to maintain Buy on the stock with a revised PT of Rs. 320.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

V-Guard is a major electrical appliances manufacturer in India and the largest in Kerala. The company is one of India's consumer goods companies with diversified product offerings. Headquartered in Kochi, Kerala, the company now has over 500 distributors, 30,000 retailers, and numerous branches across India. The company manufactures voltage stabilisers, electrical cables, electric pumps, electric motors, geysers, solar water heaters, air coolers, and UPSs. The company's business segments comprise electronics, electricals, and consumer durables, which contributed 23.5%, 30.6%, and 45.9%, respectively, to FY2022 revenue.

Investment theme

V-Guard is an established brand in the electrical and household goods space, particularly in south India. Over the years, the company has successfully ramped up its operations and network to become a multi-product company. The company has a strong presence in the southern region. The company is also aggressively expanding in non-south markets and is particularly focusing on tier-II and III cities, where there is immense demand for its products.

Key Risks

Relatively weak demand environment in southern and eastern regions may affect earnings in the near term.

Additional Data

Key management personnel

Mr. Kochouseph Chittilappilly	Chairman
Cherian Punnose	Vice-Chairman
Mithun K Chittilappilly	Managing Director
V Ramachandran	Director and Chief Operating Officer
Sudarshan Kasturi	Senior VP and CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Small Cap Fund	9.11
2	Arun K Chittilappilly	8.75
3	Kotak Small Cap Fund	5.27
4	Mithun Kochouseph Chittilappilly (Anekha Chittilappilly Trust)	4.94
5	Kochouseph Thomas Chittilappilly	4.82
6	Kochouseph Chittilappilly	4.29
7	Nalanda India Equity Fund	4.23
8	Priya Sarah Cheeran Joseph	4.07
9	Nalanda India Fund	1.93
10	Aditya Birla Sun Life Trustee Private Limited	1.31

Source: Bloomberg old data, Capitaline

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