

## Reduce

## Covid impacts Q1; inventory goes up

- Q1 saw a strong YoY due to the base effect of Q1 of last year (Refer Exhibit 1). EBITDA came in at 8.1% compared to double digit margins in the past three quarters due to adverse operating leverage. Inventory was up significantly at 123 days and working capital at 106 days, partially due to a strategic call to hold 15 days' inventory to tackle the lockdown, though it is expected to normalize in Q2.
- Its focus on non-south markets continue, as reflected in higher growth and increasing mix of non-south markets, though south continues to fetch better EBITDA margins. Thrust also continues on in-house production, which they are targeting at 60% from current 47% in next 3-5 years.
- We have marginally tweaked estimates (Refer Exhibit 2) and continue to maintain a Reduce on the stock valuing the stock at 47x Sep22E with a TP of Rs260 as we await a better entry point.

## Q1 was impacted by covid; inventory goes up

Q1 saw a growth in sales, EBITDA and PAT by 39%, 5x and 7x YoY to Rs5.7bn, Rs455mn and Rs255mn respectively, due to the base effect of Q1 of last year. GM improved 440bps YoY and 223bps QoQ. EBITDA came in at 8.1% compared to double digit margins in the past three quarters, though better than expectations of 7.2%. While revenues across segments grew due to low base, impact of adverse operating leverage was also seen with segmental loss in the ECD South and non-south mix for the quarter stood at 57:43. The company also suffered due to a higher impact of lockdown in South and East which are key markets for them. Inventory was up significantly at 123 days and working capital at 106 days as compared to 61 days last year and 73 days in the March quarter. However, this is partially due to a strategic call to hold 15 days' inventory to tackle the lockdown. This inventory has come down in July and is expected to normalize by end of August barring 1-2 product categories-mainly summer products.

## Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	5,652	4,058	39.3	8,491	(33.4)
Total Expense	5,197	3,968	31.0	7,392	(29.7)
EBITDA	455	91	402.3	1,099	(58.6)
Depreciation	113	79	42.9	117	(3.5)
EBIT	343	12	2788.5	983	(65.1)
Other Income	39	47	(17.4)	44	(11.2)
Interest	15	11	42.3	23	(34.3)
EBT	366	48	663.6	1,003	(63.5)
Tax	111	12	844.6	320	(65.4)
RPAT	255	36	605.0	683	(62.6)
APAT	255	36	605.0	683	(62.6)
			(bps)		(bps)
Gross Margin (%)	33.7	29.2	444	31.4	223
EBITDA Margin (%)	8.1	2.2	582	12.9	(489)
NPM (%)	4.5	0.9	363	8.0	(353)
Tax Rate (%)	30.2	24.4	579	31.9	(165)
EBIT Margin (%)	6.1	0.3	577	11.6	(551)

CMP	Rs 249
Target / Upside	Rs 260 / 4%
NIFTY	15,763

## Scrip Details

Equity / FV	Rs 430mn / Rs 1
Market Cap	Rs 107bn
	USD 1bn
52-week High/Low	Rs 285/ 159
Avg. Volume (no)	1,278,500
Bloom Code	VGRD IN

Price Performance	1M	3M	12M
Absolute (%)	(6)	12	53
Rel to NIFTY (%)	(7)	3	12

## Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	62.5	57.2	57.2
MF/Banks/FIs	13.1	13.6	13.6
FIs	13.0	14.9	14.9
Public / Others	11.4	14.3	14.3

## Valuation (x)

	FY21A	FY22E	FY23E
P/E	53.8	49.9	39.8
EV/EBITDA	34.1	34.6	28.3
ROE (%)	18.1	17.2	19.4
RoACE (%)	18.5	17.6	19.6

## Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	26,990	30,219	35,310
EBITDA	3,065	3,022	3,672
PAT	1,990	2,147	2,688
EPS (Rs.)	4.6	5.0	6.2

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### Non-south, in house production focus to continue

Non-south mix in revenues was 43% in Q1 and has been growing steadily. In line with management's guidance the Non-south mix grew 43%YoY as compared to 35% YoY growth in South. EBITDA margins continue to be better in South markets, despite similar gross margins across south and non-south. It is also focused on increasing in-house production for some time as it enters the mid premium fans market, as it believes higher control over supply chain can help its margins. Its in-house mix currently stands at 47%(45% in FY20) and expected to go to 60% in the next 3-5 years.

### Maintain Reduce with TP of Rs260

VGRD focus on non-south markets continue, where it is against more formidable players like Havells, which we prefer over V Guard. We have marginally tweaked estimates (Refer Exhibit 2) and continue to maintain a Reduce on the stock valuing the stock at 47x Sep22E with a TP of Rs260 as we await a better entry point for the stock.

**Exhibit 1: Actual v/s DART estimates**

Particulars (Rs mn)	Actual	DART	Consensus	DART	Consensus	Comments
	Q1FY22	Q1FY22	Q1FY22	Var (%)	Var (%)	
Sales	5,652	5,073	6,530	11	(22)	Sales in Q1 impacted by covid
EBITDA	455	363	597	25	(39)	
EBITDA margins	8.1	7.2	9.1	90	(199)	Impact of adverse operating leverage...
PAT	255	216	406	18	(47)	
Pat margins	4.5	8.3	8.3	(379)	0	...led to lower PAT margins
EPS (Rs)	0.6	1.1	0.9	(46)	16	

Source: Company, DART

**Exhibit 2: Change in Our Estimates**

(Rs mn)	FY22E			FY23E		
	Earlier	New	Change (%)	Earlier	New	Change (%)
Sales	30,045	30,219	0.6	34,523	35,310	2.3
EBITDA	3,005	3,022	0.6	3,590	3,672	2.3
EBITDA Margin	10.0	10.0	0	10.4	10.4	0
PAT	2,134	2,147	0.6	2,626	2,688	2.4
EPS (Rs)	5.0	5.0	0.6	6.1	6.2	2.4

Source: Company, DART

### Exhibit 3: Quarterly Performance

(Rs mn)	Q1FY22	Q1FY21	YoY(%)	Q4FY21	QoQ(%)
<b>Net Revenue</b>	<b>5,652</b>	<b>4,058</b>	<b>39.3</b>	<b>8,491</b>	<b>(33.4)</b>
Cost of materials consumed	1,853	494	275.3	3,049	(39.2)
Purchase of Stock in trade	(121)	566	(121.4)	4,479	(102.7)
Changes in Inventories, WIP & SIP	2,018	1,813	11.3	(1,706)	(218.3)
<b>Total Raw Material Cost</b>	<b>3,750</b>	<b>2,873</b>	<b>30.5</b>	<b>5,822</b>	<b>(35.6)</b>
Staff Expenditure	581	546	6.2	570	1.8
Other Expenses	867	549	57.9	999	(13.2)
<b>EBITDA</b>	<b>455</b>	<b>91</b>	<b>402.3</b>	<b>1,099</b>	<b>(58.6)</b>
Depreciation	113	79	42.9	117	(3.5)
<b>EBIT</b>	<b>343</b>	<b>12</b>	<b>2,788.5</b>	<b>983</b>	<b>(65.1)</b>
Other Income	39	47	(17.4)	44	(11.2)
Interest	15	11	42.3	23	(34.3)
<b>PBT</b>	<b>366</b>	<b>48</b>	<b>663.6</b>	<b>1,003</b>	<b>(63.5)</b>
Tax	111	12	844.6	320	(65.4)
<b>Net Profit</b>	<b>255</b>	<b>36</b>	<b>605.0</b>	<b>683</b>	<b>(62.6)</b>
Reported EPS	0.6	0.1		1.6	

Source: Company, DART

### Exhibit 4: Operating cost and margins as a % of Sales

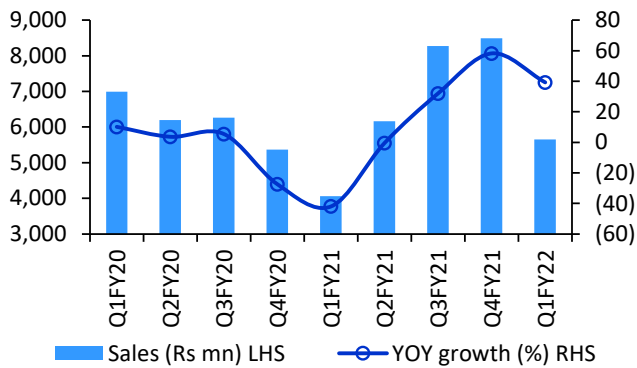
Particulars	Q1FY22	Q1FY21	bps	Q4FY21	bps
Raw Material Cost	66.3	70.8	-444	68.6	-223
Staff Cost	10.3	13.5	-319	6.7	355
Other Expenses	15.3	13.5	181	11.8	357
<b>Margins (%)</b>					
GM	33.7	29.2	444	31.4	223
EBITDA	8.1	2.2	582	12.9	-489
EBIT	6.1	0.3	577	11.6	-551
PBT	6.5	1.2	529	11.8	-534
NPM	4.5	0.9	363	8.0	-353

Source: Company, DART

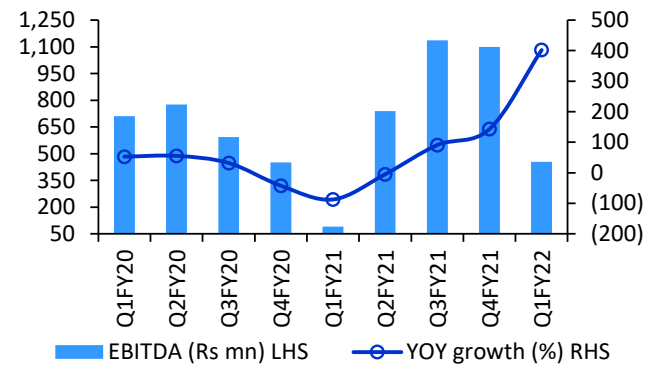
### Exhibit 5: Segment Performance

Revenue	Q1FY22	Q1FY21	YoY(%)	Q4FY21	QoQ(%)
Electronics	1,590	1,377	15.5	2,428	(34.5)
Electricals	2,565	1,827	40.4	3,827	(33.0)
Consumer Durables	1,497	855	75.1	2,237	(33.1)
<b>Total</b>	<b>5,652</b>	<b>4,058</b>	<b>39.3</b>	<b>8,491</b>	<b>(33.4)</b>
<b>EBIT</b>					
Electronics	207	93	121.9	531	(61.0)
Electricals	254	55	359.1	430	(40.9)
Consumer durables	(59)	(87)	(32.1)	89	(166.1)
<b>Total</b>	<b>402</b>	<b>62</b>	<b>550.0</b>	<b>1,050</b>	<b>(61.7)</b>
Interest	15	11	42.3	23	(34.3)
Un- allocable exp	21	3	566	24	
Net EBIT	366	48	663.6	1,003	(63.5)
<b>EBIT Margins</b>			<b>bps</b>		<b>bps</b>
Electronics	13.0	6.8	625	21.9	(883)
Electricals	9.9	3.0	688	11.2	(133)
Consumer Durables	(3.9)	(10.2)	622	4.0	(791)
<b>Capital Employed</b>					
Electronics	2,296	1,377	66.8	2,066	11.1
Electricals	3,277	1,827	79.4	2,832	15.7
Consumer durables	4,158	855	386.4	3,315	25.4
Unallocable	2,721	4,058	(32.9)	3,865	(29.6)

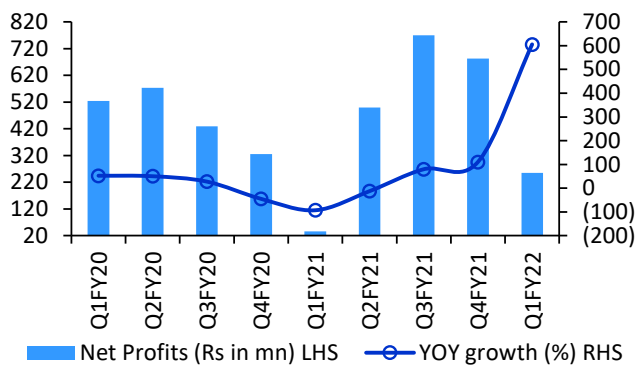
Source: Company, DART

**Exhibit 6: Sales and QoQ growth (%)**


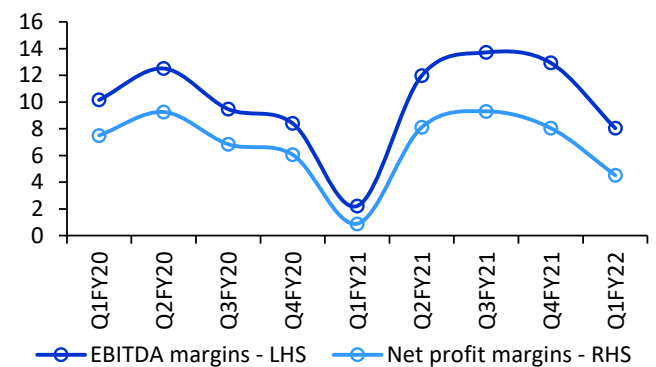
Source: Company, DART

**Exhibit 7: EBITDA and QoQ growth (%)**


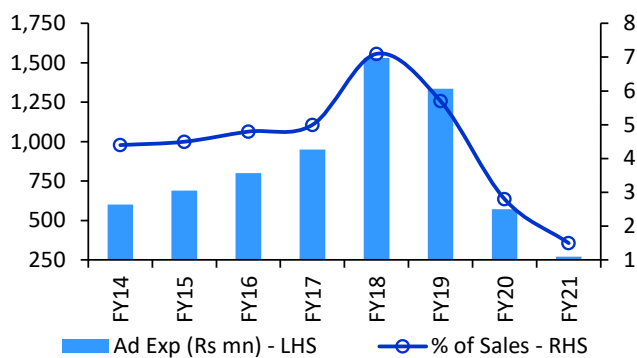
Source: Company, DART

**Exhibit 8: Net Profit and QoQ growth (%)**


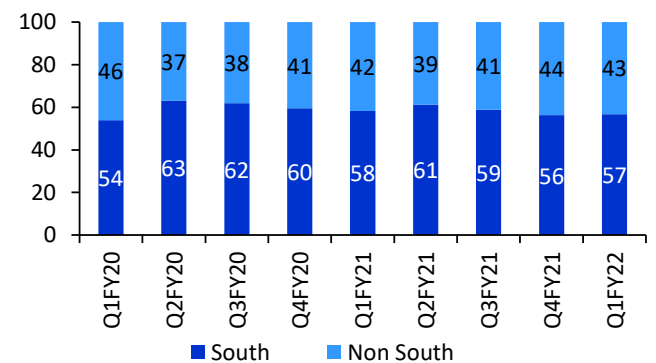
Source: Company, DART

**Exhibit 9: Trend in margin (%)**


Source: Company, DART

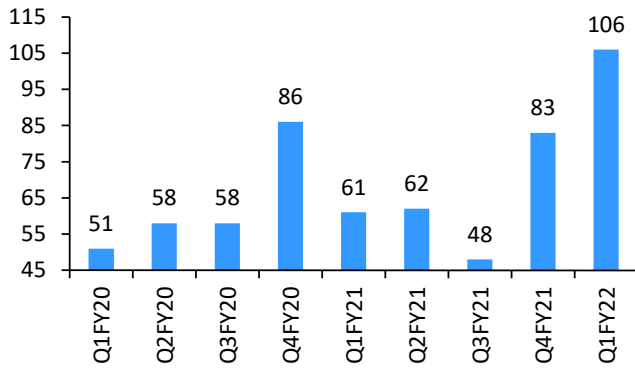
**Exhibit 10: Ad Spend (% to Sales)**


Source: Company, DART

**Exhibit 11: Expanding Graphical Reach (%)**


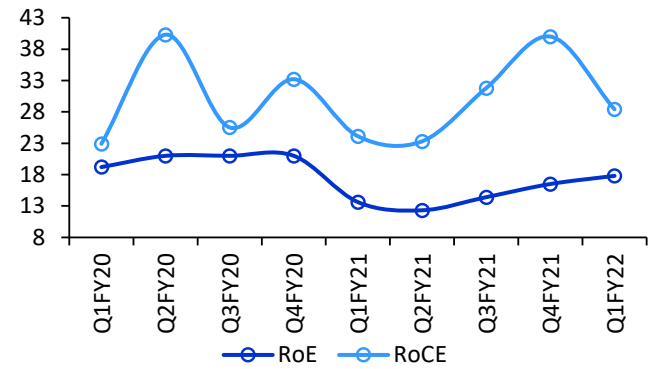
Source: Company, DART

**Exhibit 12: WC Cycle**



Source: Company, DART

**Exhibit 13: RoE and RoCE (%)**



Source: Company, DART

### Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>24,820</b>	<b>26,990</b>	<b>30,219</b>	<b>35,310</b>
<b>Total Expense</b>	<b>22,287</b>	<b>23,925</b>	<b>27,197</b>	<b>31,638</b>
COGS	16,582	18,487	20,549	23,834
Employees Cost	2,068	2,247	2,659	3,107
Other expenses	3,637	3,191	3,989	4,696
<b>EBIDTA</b>	<b>2,533</b>	<b>3,065</b>	<b>3,022</b>	<b>3,672</b>
Depreciation	281	373	379	364
<b>EBIT</b>	<b>2,252</b>	<b>2,692</b>	<b>2,643</b>	<b>3,308</b>
Interest	37	56	60	50
Other Income	240	211	243	279
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>2,454</b>	<b>2,847</b>	<b>2,825</b>	<b>3,537</b>
Tax	603	857	678	849
RPAT	1,852	1,990	2,147	2,688
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>1,852</b>	<b>1,990</b>	<b>2,147</b>	<b>2,688</b>

### Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	428	430	430	430
Minority Interest	0	0	0	0
Reserves & Surplus	9,509	11,648	12,473	14,397
<b>Net Worth</b>	<b>9,938</b>	<b>12,078</b>	<b>12,903</b>	<b>14,827</b>
Total Debt	100	100	100	100
Net Deferred Tax Liability	(22)	(27)	(27)	(27)
<b>Total Capital Employed</b>	<b>10,015</b>	<b>12,151</b>	<b>12,976</b>	<b>14,900</b>

### Applications of Funds

Net Block	2,675	3,538	3,809	4,095
CWIP	669	196	196	196
Investments	91	425	425	425
<b>Current Assets, Loans &amp; Advances</b>	<b>10,946</b>	<b>14,413</b>	<b>14,910</b>	<b>17,137</b>
Inventories	4,764	6,287	6,209	6,772
Receivables	3,218	3,847	4,307	5,033
Cash and Bank Balances	1,115	2,811	2,189	2,417
Loans and Advances	86	37	42	49
Other Current Assets	1,403	1,431	1,662	1,866
<b>Less: Current Liabilities &amp; Provisions</b>	<b>4,365</b>	<b>6,420</b>	<b>6,363</b>	<b>6,952</b>
Payables	3,007	4,731	4,967	5,321
Other Current Liabilities	1,358	1,689	1,396	1,631
<i>sub total</i>				
Net Current Assets	6,581	7,992	8,547	10,185
<b>Total Assets</b>	<b>10,015</b>	<b>12,151</b>	<b>12,976</b>	<b>14,900</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	33.2	31.5	32.0	32.5
EBIDTA Margin	10.2	11.4	10.0	10.4
EBIT Margin	9.1	10.0	8.7	9.4
Tax rate	24.6	30.1	24.0	24.0
Net Profit Margin	7.5	7.4	7.1	7.6
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	66.8	68.5	68.0	67.5
Employee	8.3	8.3	8.8	8.8
Other	14.7	11.8	13.2	13.3
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	60.3	48.1	44.0	66.2
Inventory days	70	85	75	70
Debtors days	47	52	52	52
Average Cost of Debt	37.3	56.0	60.0	50.0
Payable days	44	64	60	55
Working Capital days	97	108	103	105
FA T/O	9.3	7.6	7.9	8.6
<b>(D) Measures of Investment</b>				
AEPS (Rs)	4.3	4.6	5.0	6.2
CEPS (Rs)	5.0	5.5	5.9	7.1
DPS (Rs)	0.9	1.2	1.5	1.5
Dividend Payout (%)	20.6	25.6	29.7	23.7
BVPS (Rs)	23.1	28.1	30.0	34.5
RoANW (%)	19.6	18.1	17.2	19.4
RoACE (%)	19.7	18.5	17.6	19.6
RoAIC (%)	26.2	29.5	26.3	28.4
<b>(E) Valuation Ratios</b>				
CMP (Rs)	249	249	249	249
P/E	57.8	53.8	49.9	39.8
Mcap (Rs Mn)	107,117	107,117	107,117	107,117
MCap/ Sales	4.3	4.0	3.5	3.0
EV	105,741	104,405	104,528	103,800
EV/Sales	4.3	3.9	3.5	2.9
EV/EBITDA	41.8	34.1	34.6	28.3
P/BV	10.8	8.9	8.3	7.2
Dividend Yield (%)	0.4	0.5	0.6	0.6
<b>(F) Growth Rate (%)</b>				
Revenue	(3.3)	8.7	12.0	16.8
EBITDA	15.4	21.0	(1.4)	21.5
EBIT	13.9	19.5	(1.8)	25.2
PBT	14.3	16.0	(0.7)	25.2
APAT	11.8	7.5	7.9	25.2
EPS	11.8	7.5	7.9	25.2

### Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	1,706	3,101	1,352	2,192
CFI	(941)	(737)	(1,150)	(1,150)
CFE	(496)	(667)	(824)	(814)
FCFF	294	2,337	702	1,542
Opening Cash	847	1,115	2,811	2,189
Closing Cash	1,115	2,811	2,189	2,417

E – Estimates

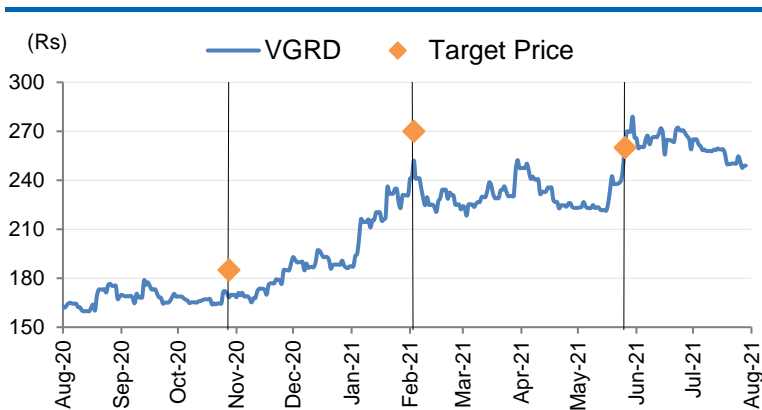


### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-20	Reduce	185	168
Feb-21	Reduce	270	252
May-21	Reduce	260	263

\*Price as on recommendation date

### DART Team

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**Analyst(s) Certification**

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**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

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