

India

December 13, 2022 - 8:35 PM

ADD (no change)

Consensus ratings*: Buy 13 Hold 8 Sell 5	
Current price:	Rs260
Target price: ▶	Rs303
Previous target:	Rs303
Up/downside:	16.5%
InCred Research / Consensus:	11.1%
Reuters:	VGUA.NS
Bloomberg:	VGRD IN
Market cap:	US\$1,546m Rs112,282m
Average daily turnover:	US\$1.3m Rs91.5m
Current shares o/s:	433.9m
Free float:	44.1%

*Source: Bloomberg

Key financial forecast

	Mar-23F	Mar-24F	Mar-25F
Net Profit (Rsm)	2,580	3,157	3,717
Core EPS (Rs)	5.95	7.28	8.57
Core EPS Growth	12.8%	22.4%	17.7%
FD Core P/E	43.64	35.74	30.35
Recurring ROE	17.2%	18.4%	19.0%
P/BV (x)	7.05	6.17	5.39
DPS (Rs)	1.50	2.00	2.50
Dividend Yield	0.57%	0.76%	0.96%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(1.8)	8.5	9.2
Relative (%)	(2.3)	4.9	3.3

Major shareholders	% held
Promoters	55.9
Sbi Small Cap Fund	9.1
Kotak Small Cap Fund	5.3

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V-Guard Industries

Widens India footprint by acquiring Sunflame

- V-Guard is all set to acquire 100% equity stake in Sunflame Enterprises Pvt. Ltd. (SEPL) for Rs6.6bn or 1.9x/20x FY22 sales/PAT, to be paid fully in cash.
- SEPL is a kitchen/small appliances firm set up in 1984, having a strong brand recall in North/West India and has been profitable since the past 10 years.
- We are positive on the transaction, given several complementary benefits for the combined business and an attractive acquisition price. Retain ADD rating.

Acquisition of 100% equity stake in Sunflame Enterprises

- V-Guard has signed a definitive agreement to acquire 100% equity stake in Sunflame Enterprises Pvt. Ltd. (SEPL) for Rs6.6bn (cash-free, debt-free), to be paid 100% in cash.
- Of the total Rs6.6bn, Rs250m (escrow balance for warranties, etc.) will be paid after two years from the date of deal closure. V-Guard will raise debt of ~Rs4bn to fund the deal.
- SEPL would continue as a 100% subsidiary of V-Guard post acquisition. The financial consolidation will happen in 4QFY23F. Deal closure is expected by Jan 2023F.
- The deal price implies a valuation of 1.9x/17x/20x FY22 revenue/EBITDA/PAT, respectively. Please note that CG Consumer acquired Butterfly Gandhimathi (3x SEPL's sales) at EV/sales, EV/EBITDA and P/E of 2.4x/26x/54x, respectively, in Feb 2022.

About Sunflame Enterprises

- SEPL is one of the leading players in kitchen appliances with brands like 'Sunflame' and 'Superflame' in India. With a history of four decades, it offers a wide product portfolio including cooktops/chimney (50-55% of sales), pressure cooker, mixer-grinder and small kitchen appliances in addition to air-coolers and room/water-heaters.
- Canteen Sales Department (CSD) accounts for ~25% of SEPL's offline sales. Excluding this, it operates on a cash-and-carry model and extends minimal credit to its distributors.
- SEPL has no debt and reported revenue/EBITDA/PAT of Rs3.5bn/Rs395m/Rs330m, respectively, in FY22. Revenue/EBITDA/PAT CAGR stood at 5.7%/3.5%/-0.5%, respectively, over FY17-22.
- SEPL has a large network of distributors/sub-distributors and reaches 10-15k retail touchpoints in India. It has a pan-India service network (non-South: 80% of sales).

Strengthens V-Guard's kitchen portfolio and geographic presence

- We believe SEPL's product development skills, coupled with an established manufacturing set-up at Faridabad, complements well with V-Guard's strategy of increasing non-South India sales mix and its focus on in-house manufacturing. SEPL has a negligible presence in modern trade and e-commerce sales.
- V-Guard to become a formidable player in the kitchen and small appliances segment with combined category sales of over Rs5bn.
- Multiple synergies to be explored in areas like geography, product portfolio and distribution channels.
- We believe SEPL's strong hold in North and West India and wide presence across general trade (90% of sales) complements well with V-Guard. Retain ADD rating.

Figure 1: Deal valuation (based on FY22 financials) and financing structure

SEPL's equity value to be paid 100% in cash	6,600
Price to sales (x)	1.9
Price to EBITDA (x)	16.7
Price-to-earnings (x)	20.0
Tentative funding structure	
Net cash (30 Sep 2022)	1,606
Cash balance to be retained as margin money, etc.	250
Funding gap to be financed by new debt	5,244

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Details about SEPL

Description	
Incorporation year	1984
Auditor	BK Goel and Associates
Number of employees	319 (185 employees with Linked-in accounts)
Location	Faridabad, Haryana

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Shareholding structure of SEPL

Names of shareholders	No. of shares	% holding
Mr. Krishan Lal Verma	10,500	61.8
Ms. Usha Verma	3,500	20.6
Mr. Pankaj Verma	1,500	8.8
Mr. Vikram Verma	1,500	8.8
Total	17,000	100.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Product portfolio



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Product portfolio



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Service network

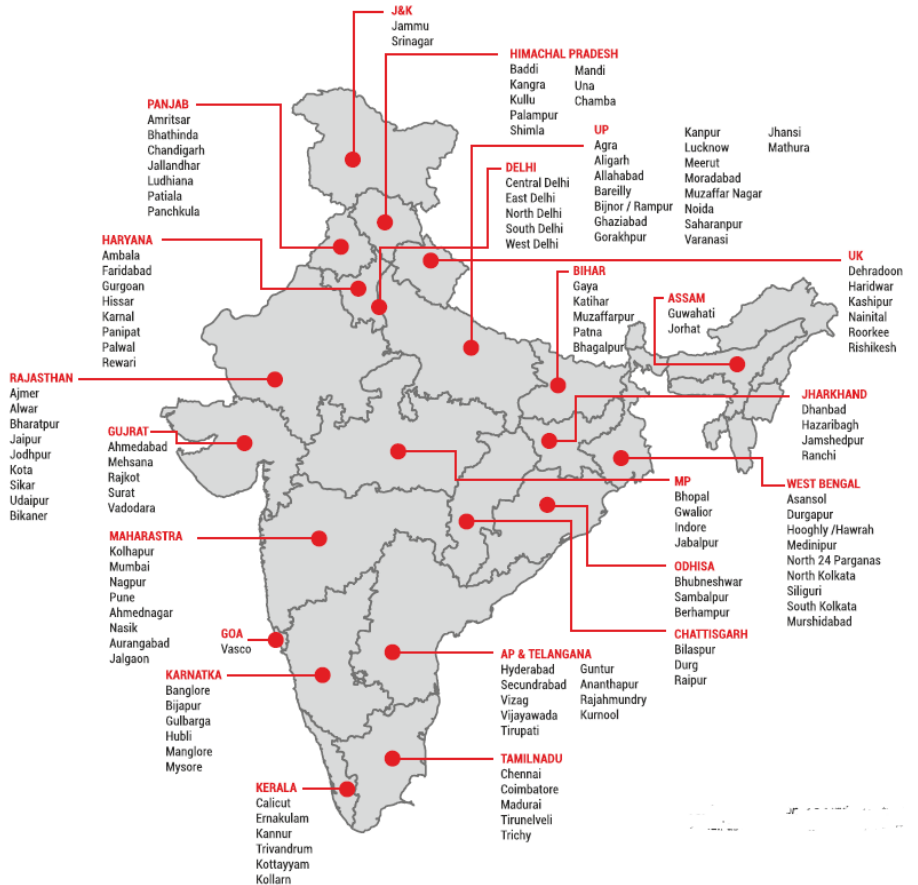


Figure 7: Financials of SEPL

Profit and Loss Statement	FY17	FY18	FY19	FY20	FY21	CAGR (%)	FY22
Net Sales	2,652	2,455	2,671	2,630	2,641	-0.1	3,498
<i>Growth yoy (%)</i>		-7.4	8.8	-1.5	0.4		32.5
RM consumed	1,713	1,522	1,706	1,701	1,704		
<i>As % to sales</i>	64.6	62.0	63.9	64.7	64.5		
Gross profit	939	934	965	929	937	-0.0	
<i>Gross margin (%)</i>	35.4	38.0	36.1	35.3	35.5		
Staff costs	98	109	106	115	137		
<i>As % to sales</i>	3.7	4.4	4.0	4.4	5.2		
Other expenses	509	500	530	554	459		
<i>As % to sales</i>	19.2	20.4	19.8	21.1	17.4		
Total expenses	2,320	2,131	2,342	2,369	2,300	-0.2	
EBITDA	332	324	329	261	341	0.5	395
<i>EBITDA margin (%)</i>	12.5	13.2	12.3	9.9	12.9		11.3
Depreciation	3	2	3	4	4		
Interest expenses	2	1	2	2	3		
Other income	164	121	93	80	51		
PBT	492	442	416	335	386	-4.7	442
Tax	153	152	149	83	103		112
<i>Tax rate (%)</i>	31.2	34.5	35.9	24.9	26.7		25.4
PAT	339	290	267	251	283	-3.5	330
Cash PAT	341	292	270	255	286	-3.4	
Balance Sheet	FY17	FY18	FY19	FY20	FY21	CAGR (%)	
Equity Capital	2	2	2	2	2		
Reserves and Surplus	1,442	1,732	1,794	1,451	1,734		
Networth	1,444	1,733	1,796	1,453	1,735	3.8	
Total debt				103			
Other LT liabilities	4	7	21	25	22		
Capital Employed	1,448	1,740	1,816	1,580	1,757	4.0	
Net FA	145	156	171	177	187		
CWIP		1	1	35	157		
LT Invts	60	20	200	198	288		
LT Assets	190	175	174	174	84		
Cash + ST Invts	910	1,131	783	562	818	-2.1	
Debtors	248	450	617	495	405		
Inventory	255	312	279	292	375		
Creditors	307	456	392	346	540		
Other ST assets	17	29	31	32	41		
Other ST liabs	69	77	46	39	56		
Net WC	143	258	489	434	224	9.4	
Capital Deployed	1,448	1,740	1,816	1,580	1,757	4.0	
Cash Flow Statement	FY17	FY18	FY19	FY20	FY21	CAGR (%)	
PBT	492	442	416	335	386	-4.7	
Others	-156	-100	-84	-76	-42		
Changes in working capital	211	-113	-217	161	104		
Tax paid	-148	-152	-148	-83	-103		
Cash flow from Operations	398	76	-32	337	346	-2.8	
Capex	-19	-13	-17	-44	-135		
Others	216	143	-94	81	-42		
Cash flow from Investing activities	197	130	-111	37	-177		
Dividend paid			-170	-493	0		
Others	-105	15	-35	-101	87		
Cash flow financing activities	-105	15	-205	-594	87		
Closing cash	910	1,131	783	562	818		
Free cash Flow (FCFF)	379	63	-49	293	210	-11.1	
Ratios	FY17	FY18	FY19	FY20	FY21		
Gross margin (%)	35.4	38.0	36.1	35.3	35.5		
EBITDA margin (%)	12.5	13.2	12.3	9.9	12.9		
ROAE (%)		18.2	15.1	15.5	17.7		
ROACE (%)		20.2	18.3	15.1	20.2		
Debtors days	34	67	84	69	56		
Inventory days	35	46	38	40	52		
Creditors days (On sales)	42	68	54	48	75		
Net WC days	20	38	67	60	31		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	34,982	41,173	45,711	50,031
Gross Profit	10,843	12,969	14,970	16,760
Operating EBITDA	3,382	3,911	4,663	5,303
Depreciation And Amortisation	(491)	(586)	(675)	(759)
Operating EBIT	2,891	3,326	3,988	4,544
Financial Income/(Expense)	(5)	24	128	239
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	54	100	102	104
Profit Before Tax (pre-EI)	2,940	3,449	4,217	4,888
Exceptional Items				
Pre-tax Profit	2,940	3,449	4,217	4,888
Taxation	(655)	(869)	(1,065)	(1,176)
Exceptional Income - post-tax				
Profit After Tax	2,284	2,580	3,152	3,712
Minority Interests	(7)		5	5
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	2,277	2,580	3,157	3,717
Recurring Net Profit	2,277	2,580	3,157	3,717
Fully Diluted Recurring Net Profit	2,277	2,580	3,157	3,717

Balance Sheet

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	613	3,364	5,471	8,215
Total Debtors	4,841	5,640	6,262	6,854
Inventories	8,596	7,332	7,514	7,539
Total Other Current Assets	1,152	1,356	1,505	1,647
Total Current Assets	15,202	17,692	20,752	24,254
Fixed Assets	3,813	3,997	3,972	3,813
Total Investments	337	337	337	337
Intangible Assets	37	37	37	37
Total Other Non-Current Assets	1,578	1,559	1,559	1,559
Total Non-current Assets	5,765	5,929	5,904	5,745
Short-term Debt	118	118	118	118
Current Portion of Long-Term Debt				
Total Creditors	4,880	5,640	6,262	6,854
Other Current Liabilities	1,166	1,128	1,252	1,371
Total Current Liabilities	6,164	6,886	7,632	8,342
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	678	678	678	678
Total Non-current Liabilities	678	678	678	678
Total Provisions				
Total Liabilities	6,842	7,564	8,310	9,020
Shareholders Equity	14,070	16,002	18,296	20,935
Minority Interests	55	55	50	44
Total Equity	14,124	16,057	18,346	20,979

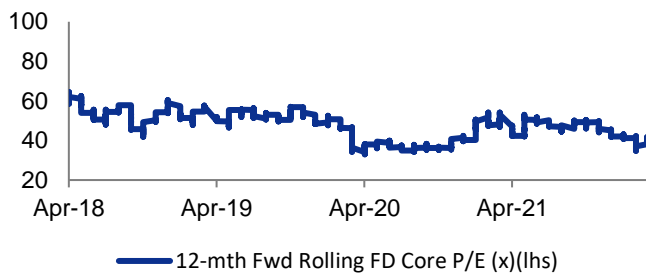
Cash Flow

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	3,382	3,911	4,663	5,303
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(3,195)	983	(207)	(49)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	278	124	230	343
Net Interest (Paid)/Received	37	(24)	(128)	(239)
Tax Paid	(888)	(869)	(1,065)	(1,176)
Cashflow From Operations	(387)	4,125	3,492	4,183
Capex	(1,246)	(750)	(650)	(600)
Disposals Of FAs/subsidiaries	1			
Acq. Of Subsidiaries/investments	12			
Other Investing Cashflow	35	99	210	325
Cash Flow From Investing	(1,198)	(651)	(440)	(275)
Debt Raised/(repaid)	(42)			
Proceeds From Issue Of Shares	5			
Shares Repurchased				
Dividends Paid	(516)	(647)	(863)	(1,079)
Preferred Dividends				
Other Financing Cashflow	(61)	(76)	(82)	(86)
Cash Flow From Financing	(615)	(723)	(945)	(1,165)
Total Cash Generated	(2,200)	2,752	2,107	2,744
Free Cashflow To Equity	(1,627)	3,475	3,052	3,908
Free Cashflow To Firm	(1,655)	3,399	2,970	3,822

Key Ratios

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	28.6%	17.7%	11.0%	9.5%
Operating EBITDA Growth	8.4%	15.6%	19.2%	13.7%
Operating EBITDA Margin	9.7%	9.5%	10.2%	10.6%
Net Cash Per Share (Rs)	1.15	7.48	12.34	18.66
BVPS (Rs)	32.57	36.88	42.17	48.25
Gross Interest Cover	36.68	43.98	48.56	53.03
Effective Tax Rate	22.3%	25.2%	25.3%	24.1%
Net Dividend Payout Ratio	19.1%	18.8%	20.4%	22.0%
Accounts Receivables Days	45.50	46.46	47.52	47.84
Inventory Days	112.73	103.07	88.14	82.57
Accounts Payables Days	72.78	68.07	70.66	71.94
ROIC (%)	29.5%	23.8%	30.3%	34.1%
ROCE (%)	22.3%	22.5%	24.2%	24.6%
Return On Average Assets	14.8%	15.4%	16.3%	16.4%

12-mth Fwd Rolling FD Core P/E (x)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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