

BUY (ADD) ▲

Current Price (Rs)	: 393
Target Price (Rs)	: 459 (490)
Potential Upside	: 17%

Market Data

No. of shares	: 436 mn
Free Float	: 45.7%
Market Cap (USD)	: 1,993 mn
52-week High/ Low (Rs)	: 577/ 300
Avg. Daily Volume (6M)	: 0.40 mn
Avg. Daily Value (6M;USD)	: 1.72 mn
Bloomberg Code	: VGRD IB
Promoters Holding	: 54.3%
FII / DII	: 13% / 20%

Price Performance

(%)	1M	3M	12M
Absolute	4.7	8.6	(15.7)
Relative	4.7	(1.2)	(19.0)

Source: Bloomberg

VGRD has expanded its geographical and product bases while managing its working capital. It is increasing the contribution from in-house manufacturing and is focusing on premium products, which should help improve GM and market share. For FY25-28E, we expect revenue/earnings CAGRs of 12% (weak demand in Q1FY26)/21%, on its (1) expanding product portfolio with an improving inhouse-mix, (2) increasing market share outside South India, (3) improving channel-mix, (4) focus on innovation/R&D, and (5) strengthening of the Sunflame business. We assume coverage of VGRD with a BUY rating, valuing it at 40x on Sep'27E EPS, on its strong balance sheet, cashflows, and increasing market share outside South India.

Electricals segment to see 11% CAGR over FY25-28E

The electricals segment's products – wires, pumps, switchgears, and modular switches – are non-seasonal and hence are expected to continue to perform well. However, demand for wires remains weaker than that for cables. Over FY25-28E, we expect a CAGR revenue of 11% and an EBIT margin improvement of ~100 bps to 11% in FY28E from FY25.

Consumer durables segment to see 12% CAGR over FY25-28E

This segment comprises summer-driven products like fans and air-coolers. Unseasonal rains in Q1FY26 will impact the segment's growth. However, it has improved its supply chain in water heaters and is ramping up the kitchen appliances division, which will support segment growth. We expect an overall segment revenue CAGR of ~12% over FY25-28E with a margin of ~6% in FY28E, vs management's expectation of a 7% margin in the near term with a target to reach ~10% in the long run, driven by a better mix in fans, investments in innovation and R&D and product expansion.

Electronics segment to see 14% CAGR over FY25-28E

This segment comprises stabilizers, UPS, and inverters, with 60% of its sales driven by RACs. The unseasonal rains in Q1FY26, having impacted the RAC season this summer, will thus impact this segment as well. Nonetheless, management maintains its long-term CAGR guidance of 12%. VGRD has set up two plants – one for electronic inverter components and another for battery, which will help in improving products and profitability. Overall, we expect a 14% CAGR over FY25-28E.

Financial summary (Consolidated)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Sales (Rs mn)	48,567	55,778	60,237	68,740	77,969
EBITDA (Rs mn)	4,267	5,132	5,542	6,817	8,170
Adj. PAT (Rs mn)	2,575	3,137	3,464	4,470	5,502
Con. EPS* (Rs)	-	-	9.1	10.9	12.9
EPS (Rs)	5.9	7.2	7.9	10.3	12.6
Change YoY (%)	36	21	10	29	23
Previous EPS (Rs)	-	-	10.5	12.0	-
RoE (%)	14.2	15.0	14.6	16.2	17.0
RoCE (%)	17.2	19.8	18.7	20.9	22.0
P/E (x)	66.3	54.6	49.4	38.3	31.1
EV/E (x)	40.7	33.3	30.4	24.4	20.0

Source: *Consensus broker estimates, Company, Axis Capital

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Financial summary (Consolidated)

Profit & Loss (Rs mn)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Net sales	48,567	55,778	60,237	68,740	77,969
Other operating income	-	-	-	-	-
Total operating income	48,567	55,778	60,237	68,740	77,969
Cost of goods sold	(32,240)	(35,558)	(38,251)	(43,306)	(48,887)
Gross profit	16,326	20,221	21,987	25,434	29,083
Gross margin (%)	34	36	37	37	37
Total operating expenses	(12,060)	(15,088)	(16,445)	(18,617)	(20,912)
EBITDA	4,267	5,132	5,542	6,817	8,170
EBITDA margin (%)	9	9	9	10	10
Depreciation	(809)	(957)	(1,113)	(1,195)	(1,220)
EBIT	3,458	4,176	4,429	5,622	6,950
Net interest	(395)	(245)	(54)	(54)	(54)
Other income	340	209	250	400	450
Profit before tax	3,403	4,140	4,625	5,968	7,346
Total taxation	(827)	(1,002)	(1,161)	(1,498)	(1,844)
Tax rate (%)	24	24	25	25	25
Profit after tax	2,575	3,137	3,464	4,470	5,502
Minorities	-	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-	-
Adjusted net profit	2,575	3,137	3,464	4,470	5,502
Adj. PAT margin (%)	5	6	6	7	7
Net non-recurring items	187	-	-	-	-

Balance Sheet (Rs mn)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Paid-up capital	434	436	436	436	436
Reserves & surplus	17,708	20,543	23,353	27,169	32,018
Net worth	18,142	20,978	23,789	27,605	32,454
Borrowing	2,910	108	108	108	108
Other non-current liabilities	1,017	1,087	1,087	1,087	1,087
Total liabilities	22,070	22,174	24,984	28,800	33,649
Gross fixed assets	13,800	15,168	16,368	17,568	19,068
Less: Depreciation	(3,004)	(3,960)	(5,073)	(6,268)	(7,488)
Net fixed assets	10,797	11,208	11,295	11,300	11,580
Add: Capital WIP	371	491	100	100	100
Total fixed assets	11,168	11,699	11,395	11,400	11,680
Total Investment	1,024	1,024	1,024	1,024	1,024
Inventory	8,118	9,973	11,699	13,245	14,929
Debtors	5,958	5,423	8,534	9,738	11,046
Cash & bank	574	645	2,839	5,155	8,113
Loans & advances	-	-	-	-	-
Current liabilities	9,667	11,332	15,397	16,803	18,334
Net current assets	7,350	6,923	10,037	13,848	18,417
Other non-current assets	2,528	2,528	2,528	2,528	2,528
Total assets	22,070	22,174	24,984	28,800	33,649

Source: Company, Axis Capital

Cash Flow (Rs mn)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Profit before tax	3,403	4,140	4,625	5,968	7,346
Depreciation & Amortisation	809	957	1,113	1,195	1,220
Chg in working capital	308	325	(921)	(1,495)	(1,611)
Cash flow from operations	3,927	4,770	3,460	3,824	4,716
Capital expenditure	(1,274)	(1,198)	(809)	(1,200)	(1,500)
Cash flow from investing	(1,526)	(969)	(559)	(800)	(1,050)
Equity raised/ (repaid)	61	-	-	-	-
Debt raised/ (repaid)	(1,456)	(2,802)	-	-	-
Dividend paid	(563)	(611)	(654)	(654)	(654)
Cash flow from financing	(2,322)	(3,775)	(708)	(708)	(708)
Net chg in cash	79	25	2,194	2,316	2,958

Key Ratios

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
OPERATIONAL					
FDEPS (Rs)	5.9	7.2	7.9	10.3	12.6
CEPS (Rs)	8.2	9.4	10.5	13.0	15.4
DPS (Rs)	1.0	1.0	1.0	1.0	1.0
Dividend payout ratio (%)	15.7	13.9	12.6	9.7	7.9
GROWTH					
Net sales (%)	17.7	14.8	8.0	14.1	13.4
EBITDA (%)	33.4	20.3	8.0	23.0	19.9
Adj net profit (%)	36.2	21.8	10.4	29.1	23.1
FDEPS (%)	35.5	21.4	10.4	29.1	23.1
PERFORMANCE					
RoE (%)	14.2	15.0	14.6	16.2	17.0
RoCE (%)	17.2	19.8	18.7	20.9	22.0
EFFICIENCY					
Asset turnover (x)	3.7	3.9	3.8	4.1	4.3
Sales/ total assets (x)	1.6	1.7	1.6	1.6	1.6
Working capital/ sales (x)	0.1	0.1	0.1	0.1	0.1
Receivable days	44.8	35.5	51.7	51.7	51.7
Inventory days	66.9	71.9	78.1	78.1	78.1
Payable days	45.3	47.3	71.0	71.0	71.0
FINANCIAL STABILITY					
Total debt/ equity (x)	0.2	0.0	0.0	0.0	0.0
Net debt/ equity (x)	0.1	0.0	(0.1)	(0.2)	(0.3)
Current ratio (x)	1.8	1.6	1.7	1.8	2.0
Interest cover (x)	8.7	17.0	81.9	104.0	128.6
VALUATION					
PE (x)	66.3	54.6	49.4	38.3	31.1
EV/ EBITDA (x)	40.7	33.3	30.4	24.4	20.0
EV/ Net sales (x)	3.6	3.1	2.8	2.4	2.1
PB (x)	9.4	8.2	7.2	6.2	5.3
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3
Free cash flow yield (%)	1.5	2.1	1.5	1.5	1.9

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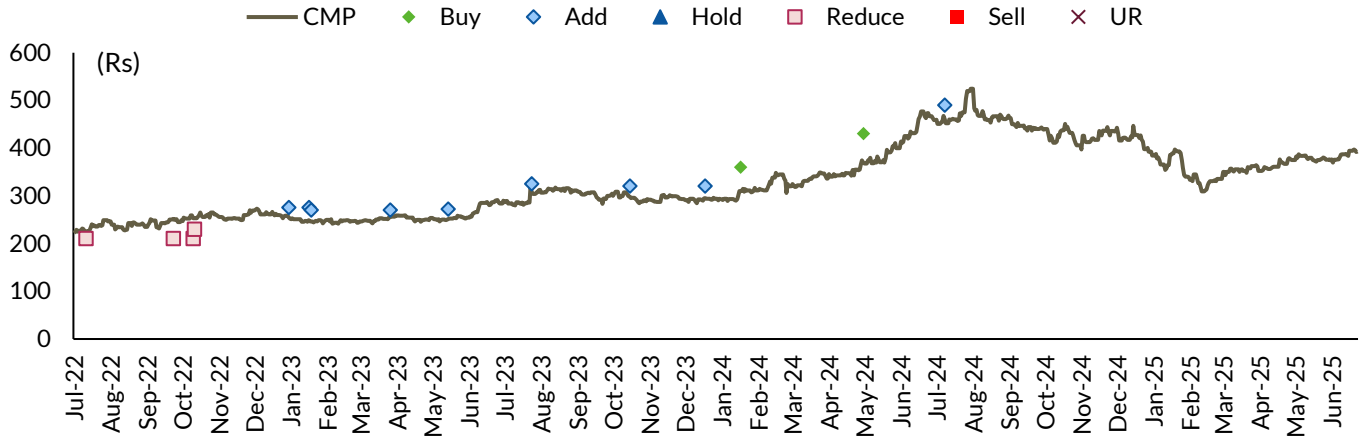
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