February 05, 2024

V-Guard Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	350.00	275.0	[ICRA]AA (Stable); reaffirmed
Long-term Fund-based – Cash Credit	285.00	0.0	-
Short-term Non-fund based - LC/BG	40.00	0.0	-
Long term/short term – working capital facilities	0.0	780.0	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed/assigned for enhanced limits
Total	**675.00**	**1055.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation considers V-Guard Industries Limited's (VGIL) strong brand position in the electrical and electronics market, especially in South India. The company is the market leader in stabilisers and has established presence in other products such as water heater, solar water heater, fans, pumps and house wiring cables. Moreover, the acquisition of Sunflame Enterprises Private Limited (SEPL), which has operational synergies with VGIL in terms of product category, geography, trade channel, manufacturing facility and strong brand recall of Sunflame, would result in an increase in scale and market share of VGIL in the kitchen appliances segment, going forward. The ratings also consider the steady revenue growth expected in the current year. ICRA notes that VGIL's scale is expected to be supported by addition of new business on account of SEPL, while revenue growth from its existing segments is likely to remain, modest given the subdued demand. VGIL has reported a consolidated revenue of ~Rs. 2,348 crore in H1 FY2024, which is expected to sustain in H2 as well, resulting in a revenue growth of ~8-10% for FY2024. The operating margins is also expected to remain rangebound at 8-8.5% in FY2024. While the total debt has increased due to the acquisition, the leverage and coverage indicators are expected to remain healthy in the near to medium term, backed by steady operating profits. Moreover, VGIL is moving from outsourcing the production model to own production model due to various fiscal benefits and higher margins available in own manufacturing. While this will entail higher capex outflow, its gross margins are expected to improve. Going forward, a substantial increase in VGIL's market share for its various product categories would remain the key rating monitorable. Although VGIL's revenues remain concentrated in the South Indian market, ICRA notes that the company is undertaking focussed initiatives towards geographical diversification. As a result, the proportion of revenues from non-South markets has improved over the last few years to 44% in H1 FY2024 from 37% in FY2018.

Nonetheless, VGIL's products witness intense price-based competition from other incumbents, and its profit margins and cash flows remain vulnerable to raw material price fluctuations. However, the company's effective pricing mechanism ensures stability in its overall profit margins and mitigates these risks to a large extent. As the company is in the B2C space, constant focus on advertising/branding, discounts/schemes and competitive trade margins are important for maintenance of sales and brand recall. Reduction in any of these could impact sales. Also, any further large debt-funded acquisitions/capex will be a credit negative.

The Stable outlook indicates that VGIL will continue to benefit from its healthy market share and brand recall value in select product categories, diversified product portfolio and strong distribution network, especially in South India.

Key rating drivers and their description

Credit strengths

Comfortable financial performance; debt coverage indicators to remain healthy – In FY2023, VGIL witnessed a revenue growth of ~18%, driven by higher sales and firm realisation. However, in the current fiscal, the scale is expected to be supported by addition of new business on account of acquisition of SEPL, while revenue growth from its existing segments is likely to remain modest due to slight moderation in demand. VGIL has reported a consolidated revenue of ~Rs. 2,348 in H1 FY2024, which is expected to sustain in H2 as well resulting in a revenues growth of ~8-10% for FY2024. The acquisition of SEPL was funded by a mix of debt and equity, which resulted in moderation in the capital structure with gearing increasing to ~0.3 times in FY2023 from 0 times in FY2022. However, the coverage indicators continued to remain healthy with interest coverage of ~9.8 times in H1FY2024.

Established presence in electrical and electronic products; strong brand equity and diversified product portfolio – V-Guard is a well-known brand in the electrical and electronics space, especially in South India, with presence for over four decades. VGIL commenced operations with its first product, stabilisers, in 1977 and has gradually expanded its product profile over the years to 22 products. It is the market leader in stabilisers with 42-45% market share in the organised segment and a strong player in water heater, solar water heater, fans, pumps and house wiring cables. VGIL's share in the kitchen appliances segment is expected to improve further with the acquisition of Sunflame.

Increasing penetration into non-South markets results in gradual geographical diversification – VGIL has been a predominantly South-India based player since its inception. Although the company continues to derive the major portion of its revenues from five southern states, its presence in non-South markets has widened over the years, aided by focused initiatives. The company derived about 44% of its revenues from non-South markets in H1 FY2024 against 39% in FY2019. Moreover, the acquisition of SEPL, which has an established presence in non-South markets will further lead to diversification of revenues.

Credit challenges

Profit margins vulnerable to fluctuation in raw material prices and demand for its products – Also, VGIL's margins are susceptible to commodity/crude price fluctuations. Such exposure to commodity price fluctuations lead to volatility in the profit margins and cash flows of VGIL. In FY2022 and FY2023, its operating margins were impacted due to a sharp increase in commodity prices and inventory losses. However, the same gradually improved to ~8.4% in H1 FY2024 from ~7.6% in FY2023. Moreover, the inventory position has also rationalised, resulting in some improvement in the WC position.

Exposed to intense competition – VGIL witnesses intense price competition across most product categories owing to presence of several organised and unorganised players. ICRA notes that in the electronics, electrical and consumer durables segment where VGIL operates in, around 30-40% of the market is unorganised in nature.

Liquidity position: Adequate

VGIL's liquidity is adequate with steady cash accruals relative to its debt servicing requirements. ICRA notes that VGIL has taken a debt of ~Rs. 275 crore in FY2023 for funding the acquisition of SEPL, which will be repaid in FY2025 and FY2026. Healthy cash flow from operations and unutilised working capital lines are expected to support the liquidity position in the near term. Overall, ICRA expects VGIL to be able to meet its near-to-medium term commitments (debt servicing and capex) through internal sources of cash.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating in case of a substantial increase in VGIL's market share for its various product categories, improvement in cash accruals while maintaining the healthy debt coverage metrics.

Negative factors – Pressure on VGIL's ratings could emerge in case of a sharp deterioration in the earnings or a significant rise in debt, with Total debt/OPBDITA of more than 1.5 times on a sustained basis. Any further large debt-funded acquisitions/capex will also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details of the subsidiaries have been provided in Annexure-2

About the company

V-Guard Industries Limited (VGIL/the company) is an established player in the electronics/electrical products industry, with a strong market position in South India. The company has a diversified product profile divided into three segments: electronics – including stabilisers (in which VGIL is the market leader) and digital UPS; electricals – including pumps, wires, water heaters, and fans; and others – including kitchen appliances and switchgears. From being a small-scale stabiliser marketing company four decades back, VGIL has diversified its presence over the years with revenues distributed across various product divisions. VGIL has adopted an asset-light manufacturing model for most of its products except for cables, water heaters and solar water heaters. V-Guard outsources ~40% of its products while the rest are manufactured in-house at its manufacturing facilities in Coimbatore (Tamil Nadu), Kashipur, Pantnagar and Haridwar (Uttarakhand), Kala Amb (Himachal Pradesh), Hyderabad (Telangana), Farodabad (Haryana) and Sikkim.

Key financial indicators

VGIL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	3,500.2	4,129.3	2,348.5
PAT	228.4	189.0	123.2
OPBDIT/OI	9.9%	7.6%	8.4%
PAT/OI	6.5%	4.6%	5.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.8	0.8
Total debt/OPBDIT (times)	0.2	1.6	1.0
Interest coverage (times)	44.0	19.3	9.8

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024) Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 23, 2023 (Rs. crore)	Date & rating in FY2024	Chronology of rating history for the past 3 years: Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Feb 5, 2024	Dec 30, 2022	Jun 09, 2022	May 10, 2021	Apr 06, 2020
1	**Term loan**	Long term	275.0	275.0	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	-	-	-
2	**Working capital facilities**	Long term/ Short term	780.0	-	**[ICRA]AA (Stable)/ [ICRA]A1+**	-	-	-	-
3	**Cash Credit**	Long term	0.0	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	**Non-fund based – LC/BG**	Short term	0.0	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	**Unallocated**	Long term	-	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long term/short term – working capital facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2023	8.5%/9.13%	FY2026	275.0	[ICRA]AA (Stable)
NA	Working Capital Facilities	-	-	-	780.0	[ICRA]AA (Stable)/[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis

Company Name	VGIL Ownership	Consolidation Approach
Guts Electro-Mech Limited	100%	Full consolidation
V-Guard Consumer Products Limited	100%	Full consolidation
Sunflame Enterprises Private Limited	100%	Full consolidation

Source: Company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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