May 10, 2019

V-Guard Industries Limited: Ratings reaffirmed at [ICRA]AA(Stable) and [ICRA]A1+

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	2.40	0.00	Reaffirmed at [ICRA]AA (Stable)
Long-term fund based	285.00	285.00	
Long-term unallocated	17.47	19.87	
Short-term non-fund based	40.00	40.00	Reaffirmed at [ICRA]A1+
Total	**344.87**	**344.87**	

*Instrument details in Annexure - I

Rationale

The ratings reaffirmation draws comfort from VGIL's strong financial profile characterized by conservative debt metrics; strong profitability and liquidity position; and its healthy revenue growth in FY2018 and 9M FY2019. The company's operating income exhibited healthy growth of 11.5% and 11.2% on YoY basis in FY2018 and 9M FY2019 respectively[1], primarily aided by increasing penetration and strong YoY growth of 18-20% in non-south markets. Further, VGIL's healthy accruals and relatively low capex for its scale have resulted in minimal debt over the last three-four years; the company did not have long-term debt as on December 31, 2018 and remained net debt negative, with a surplus of Rs. 203.3 crore as on December 31, 2018. VGIL's liquidity position also remained robust – resulting in negligible working capital utilization in the last one year. VGIL continues to have healthy RoCE – 26.5% in FY2018, supported by its asset-light business model, low debt levels and healthy profits. The company's financial profile is likely to remain strong going forward with no significant increase in debt levels anticipated over the medium term.

ICRA also draws comfort from the strong equity of the 'V-Guard' brand in the electrical and electronics space, especially in South India, the company's market leadership in stabilizers and its established presence in other products such as water heater, solar water heater and house wiring cables. The company has also diversified its product portfolio with periodic inclusion of adjacent products over the last several years. Although VGIL's revenues remain concentrated in the South-Indian market, ICRA notes that the company is undertaking focussed initiatives to improve its geographic diversification and that the proportion of revenues from non-south markets has improved over the last few years from 25% in FY2013 to 39% in 9M FY2019.

The ratings are, however, constrained by the intense pricing competition across most product categories with presence of several players. Although the company's effective pricing mechanism ensures stability of profit margins and mitigates risks arising from unfavourable forex/raw material price movements to a large extent, one-time rebranding expenses of ~Rs. 50 crore in FY2018 and steep discounts and limited passthrough of the raw material price increases during the Kerala flood hit 9M FY2019 resulted in dip in operating margins during the past two years. VGIL's OPM was lower by 190 bps on YoY basis at 8.2% in FY2018 and by 130 bps on YoY basis at 7.8% during 9M FY2019[1]. Going forward, ICRA expects VGIL's margins to improve aided by higher volumes, complete passthrough of incremental costs and its various cost-saving initiatives. However, being in the B2C space, constant focus on advertising/branding,

[1] 9M FY2019 revenue growth and operating margins on standalone basis

discounts/schemes and competitive trade margins are critical for maintenance of sales and brand recall; reduction in any of these could impact sales. The company continues to explore opportunities for inorganic growth. ICRA will evaluate the impact of such investments on a case-by-case basis.

Outlook: Stable

The 'stable' outlook reflects VGIL's well-entrenched market position in the electrical/electronic space and its strong financial profile – characterized by healthy profitability, conservative debt metrics and robust liquidity. The outlook may be revised to 'positive' if there is substantial improvement in VGIL's profit margins and market position. The outlook may be revised to 'negative' if the company's revenues/margins are weaker-than-expected, or if VGIL's debt increases significantly – either due to working capital stretch or capex – and there is deterioration in the company's liquidity position.

Key rating drivers

Credit strengths

Established presence in electrical and electronic products; strong brand equity – 'V-Guard' is a well-known brand in the electrical and electronics space, especially in South India, with presence for over four decades. The company remains the market leader in stabilizers with about 35% market share and a strong player in other products such as water heater, solar water heater and house wiring cables.

Diversified product portfolio – The company currently has eighteen products in its portfolio. VGIL commenced operations with just stabilizers in 1977 and has gradually expanded its product profile over the years. The company introduced air coolers and modular switches in FY2018.

Increasing penetration into non-south markets resulting in gradual geographical diversification – VGIL has predominantly been a South-India based player since inception. Although the company continues to derive majority of its revenues from the five southern states, VGIL's presence in non-south markets has increased over the years, aided by focussed initiatives; the company derived about 39% of its revenues from non-south markets in 9M FY2019, as against 25% in FY2013.

Healthy revenue growth in FY2018 and 9M FY2019; healthy profitability – The company's operating income grew at a healthy rate of 11.5% and 11.2%[2] on YoY basis, in FY2018 and 9M FY2019 respectively. The growth was primarily aided by increased penetration in the non-south markets. ICRA expects VGIL's revenue growth to remain healthy going forward as well. VGIL also continues to have healthy RoCE (26.5% in FY2018), aided by its asset-light business model, negligible debt levels and healthy profits.

[2] 9M FY2019 revenue growth on standalone basis

Conservative debt metrics and robust liquidity position – VGIL's debt and liquidity position has improved significantly in the last three-four years, attributed to its healthy accruals and relatively modest capex. The company's gross debt remained minimal at Rs. 10.0 crore as on December 31, 2018; net debt stood at a negative Rs. 203.3 crore as on December 31, 2018 (with cash and liquid investments of Rs.213.3 crore). The negligible gross debt and healthy accruals have resulted in strong capital structure and coverage metrics. VGIL's interest coverage stood at 135.4 times for 9M FY2019 while its Net Cash Accruals (NCA)/Total Debt (TD) stood at 1,133% for 9M FY2019. The company's working capital utilization was also negligible in the last one year.

Credit challenges

Intense competition from industry incumbents – VGIL witnesses intense pricing competition across most product categories because of the presence of several organized and unorganized players. Also, although the company's effective pricing mechanism ensures stability of profit margins despite unfavourable forex movements (VGIL is a net importer) and commodity/crude price fluctuations, one-time rebranding expenses of ~Rs. 50 crore in FY2018 and absorption of the same resulted in VGIL's OPM declining by 190 bps to 8.2% in FY2018. For 9M FY2019, VGIL's standalone OPM stood at 7.8% (as against 9.1% during 9M FY2018) impacted by incomplete passthrough of the raw material price increases and relatively high discounts because of the Kerala floods. Going forward, ICRA expects VGIL's margins to improve aided by higher volumes, complete passthrough of incremental costs and its various cost-saving initiatives.

Constant focus on sales promotion activities and advertisements required – Akin to other B2C businesses, below-the-line sales promotion activities such as discounts/schemes and competitive margins to retailers are critical for VGIL for maintaining sales volumes. Equally important is constant spend on advertising and branding for brand recall. VGIL spends about Rs. 70-75 crore a year on an average on advertisements, business promotion activities and cash discounts. Further, while VGIL launches new products periodically to meet increasing customer requirements and technological advancements, the company also revamped its logo and tagline in FY2018 for contemporary relevance.

Liquidity Position:

VGIL's liquidity position has remained strong in the last three to four years, with healthy cash flows and negligible debt. The company reported positive retained cash flows in FY2017 and FY2018, and its working capital utilisation has been minimal over the last two years. Also, VGIL does not have long-term debt as on date and was net debt negative with cash and liquid balances of Rs. 213.3 crore as on December 31, 2018. The company has proposed cumulative capex of Rs. 150.0 crore over FY2020-21, expected to be funded entirely through internal accruals. ICRA expects VGIL's liquidity position to remain strong over the medium term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Consolidation

About the company:

V-Guard Industries Limited (VGIL/the company) is an established player in the electrical and electronics industry, with strong market position in South India. The company has a diversified product portfolio across three segments: electronics – such as stabilizers and digital UPS; electricals – such as house wiring cables, water heaters, solar water heaters, pumps, fans, switches, air cooler and modular switches; and consumer durables – such as kitchen appliances such as gas top, induction stoves, rice cookers and mixers. From being a small-scale stabilizer company four decades back, VGIL has diversified its presence over the years and across product segments. Also, the company works on an asset-light manufacturing model for most of its products except cables, water heaters and solar water heaters; about 45% of the overall requirements are currently outsourced.

VGIL is currently managed by Mr. Mithun Chittilappily, son of the founder Chairman, Mr. Kochouseph Chittilappily. Apart from VGIL, the promoters have interest in three other entities – V-Star Creations Private Limited, Wonderla Holidays Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+) and Veegaland Developers Private Limited.

Key financial indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	2,085.6	2,325.7
PAT (Rs. crore)	144.6	135.1
OPBDIT/ OI (%)	10.1%	8.2%
RoCE (%)	37.1%	26.5%
Total Debt/ TNW (times)	0.01	0.02
Total Debt/ OPBDIT (times)	0.03	0.04
Interest coverage (times)	100.1	93.8
NWC/ OI (%)	16.5%	19.3%

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

			Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 2019	Date & Rating in FY2017 Mar 2018	Date & Rating in FY2016 Oct 2016	Date & Rating in FY2015 Jul 2015
1	Term loans	Long Term	-	-				
2	Long-term fund based	Long Term	285.00		[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]A+ (Stable)
3	Long-term unallocated	Long Term	19.87					
4	Short-term non-fund based	Short Term	40.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
CC	NA			285.00	**[ICRA]AA (Stable)**
Long-term unallocated				19.87	
LC/BG				40.00	**[ICRA]A1+**

Source: V-Guard Industries Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Guts Electro-Mech Limited	74%	Full consolidation

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999