June 09, 2022

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	285.00	285.00	[ICRA]AA(Stable) Reaffirmed
Long-term unallocated	19.87	19.87	[ICRA]AA(Stable) Reaffirmed
Non-fund based limits – LC/BG	40.00	40.00	[ICRA]A1+ Reaffirmed
Total	**344.87**	**344.87**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation takes into consideration V-Guard Industries Limited's (VGIL) healthy revenue growth of ~29% in FY2022, which is expected to improve further in the near term with favourable demand outlook for VGIL's products. While the revenue growth was healthy, the profit margins were slightly impacted due to high commodity inflation in FY2022. VGIL had hiked prices in FY2022 and further in April 2022 to mitigate the impact of the same, which will keep the OPBITDA margin at ~10% in FY2023. Further, the ratings consider VGIL's healthy financial profile, characterised by conservative debt metrics and strong liquidity position. The company does not have long-term debt as on March 31, 2022 and has remained net debt negative since FY2016, with net cash and bank balance of ~Rs. 50 crore as on March 31, 2022 and a marginal fund-based working capital utilisation (as of month-end) in the last one year. ICRA notes that the liquidity position has been impacted due to high inventory levels, which are expected to improve with liquidation of the same. The company's financial profile is likely to remain strong, going forward, with no significant increase in debt levels anticipated over the medium term.

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. The ratings draw 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 position in stabilisers and established presence in other products such as water heater, solar water heater and house wiring cables. Going forward, a substantial increase in VGIL's market share for its various product categories would remain the key rating monitorable. 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 towards geographical diversification. As a result, the proportion of revenues from non-South markets has improved over the last few years to 42% in FY2022 from 25% in FY2013.

Nonetheless, VGIL's products witness intense price-based competition from other incumbents, and its profit margins and cash flows remain vulnerable to forex and raw material price fluctuations. However, the company's effective pricing mechanism ensures stability in the company's 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. The company continues to explore opportunities for inorganic growth. ICRA will evaluate the impact of such investments on a case-to-case basis.

The Stable outlook indicates that VGIL will continue to benefit from its established position in select product categories, strong brand equity, diversified product portfolio and strong distribution network, especially in South India. The company will continue to benefit from healthy financial profile and strong liquidity position.

Key rating drivers and their description

Credit strengths

Healthy revenue growth in FY2022; expected to continue in near term – In FY2022, VGIL witnessed a revenue growth of ~29%, driven by higher volumes and firm realisation. In FY2022, the company, on an average has increased prices by ~10% across various product categories, except wires (price hike in wires was ~35-40%). Price increase and continued favourable demand outlook for VGIL's products will augur well for the company in the future. In FY2023, revenue growth is expected to be the range of ~15-20% with a steady operating margin of ~10%.

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 as on date. It is the market leader in stabilisers with about 42-45% market share in the organised segment and a strong player in other products such as water heater, solar water heater and house wiring cables. Going forward, a substantial increase in VGIL's market share for its various product categories would remain a key rating monitorable.

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, VGIL's presence in non-South markets has widened over the years, aided by focused initiatives. The company derived about 42% of its revenues from non-South markets in FY2022 against 25% in FY2013.

Conservative debt metrics and strong liquidity position – The company's gross debt remained minimal at Rs. 12 crore as on March 31, 2022. Low debt levels and healthy business accruals have resulted in strong capital structure with a gearing of 0.05 times and healthy coverage metrics. VGIL's interest coverage stood at 43 times in FY2022 while its net cash accruals (NCA)/Total Debt (TD) stood at 323% in FY2022. At present, the liquidity position has been impacted due to high inventory levels. Going forward, the same is expected to improve with reduction in inventory levels. The company's fund-based working capital utilisation remained negligible in the last one year despite high inventory levels, and VGIL had cash and bank balance worth ~Rs. 130-150 crore in April 2022.

Credit challenges

Intense competition; profit margins vulnerable to unfavourable forex movements and fluctuations in raw material prices – VGIL witnesses intense price competition across most product categories owing to presence of several organised and unorganised players. Also, VGIL's margins are susceptible to unfavourable forex movements and commodity/crude price fluctuations. ICRA notes that in the recent months, prices of copper, its key raw material, witnessed a sharp increase, which could lead to volatility in the profit margins and cash flows of VGIL in the near term. However, the company's effective pricing mechanism ensures stability in the company's overall profit margins and mitigates these risks to a large extent.

Constant focus on sales promotion activities and advertisements required – Like other B2C businesses, below-the-line sales promotion activities such as discounts/schemes and competitive margins to retailers are important for VGIL for maintaining sales volumes. Constant spend on advertising and branding for brand recall is equally important. VGIL, on an average, spends about ~6-6.5% of its OI on advertisements, business promotion activities and cash discounts. While VGIL launches new products periodically to meet increasing customer requirements and technological advancements, it would also entail higher expenses on advertising until the products achieve some commercial success.

Liquidity position: Strong

VGIL's liquidity is strong with cash and bank balances and liquid investments of Rs. 130-150 crore as of April 2022 and undrawn fund-based working capital limits. VGIL does not have long-term debt and utilisation of fund-based working capital lines was negligible in the last two years. At present, the inventory levels are high, leading to reduction in cash and bank balances. Going forward, with reduction in inventory levels, the cash balance is expected to increase. VGIL has incurred capex of Rs. 127 crore in FY2022 and has a capex commitment of ~Rs. 150 crore in FY2023, to be funded through internal accruals. Overall, ICRA expects VGIL to be able to meet its medium-term commitments through internal sources of cash and yet be left with healthy cash/liquid investments surplus.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating in case of a substantial increase in VGIL's market share across various product categories, while maintaining its profit margins. An improvement in RoCE to 25% on a sustained basis, while maintaining its strong debt metrics, could lead to a rating upgrade.

Negative factors – Pressure on VGIL's ratings could emerge in case of a sharp deterioration in the earnings or a significant rise in net debt. Net debt/OPBDITA above 1.5 times on a sustained basis could result in ratings downgrade.

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 subsidiary have been provided in Annexure-2

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 stabilisers and digital UPS), electricals (such as house wiring cables, water heaters, solar water heaters, pumps, switches and modular switches), and consumer durables (such as gas top, induction stoves, rice cookers and mixers, air cooler, fans etc). VGIL has diversified its presence over the years across various product segments from being a small-scale stabiliser company four decades back.

VGIL is managed by Mr. Mithun Chittilappily, son of the founder Chairman, Mr. Kochouseph Chittilappily. Apart from VGIL, the promoters have interests in three other entities – V-Star Creations Private Limited, Wonderla Holidays Limited and Veegaland Developers Private Limited.

Key financial indicators (audited)

VGIL Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	2,721.3	3,498.2
PAT (Rs. crore)	201.9	228.4
OPBDIT/OI (%)	11.8%	9.7%
PAT/OI (%)	7.4%	6.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	0.2	0.2
Interest Coverage (times)	52.6	42.9

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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 09, 2022	May 10, 2021	Apr 6, 2020	May 10, 2019
1	Cash credit	Long-term	285.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Long-term unallocated	Long-term	19.87	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-fund based – LC/BG	Short term	40.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Long-term unallocated	NA
Non-fund based – LC/BG	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	285.00	[ICRA]AA (Stable)
NA	Long-term unallocated	-	-	-	19.87	[ICRA]AA (Stable)
NA	Non-fund based – LC/BG	-	-	-	40.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	VGIL Ownership	Consolidation Approach
Guts Electro-Mech Limited	74%	Full consolidation
V-Guard Consumer Products Limited	100%	Full consolidation

Source: *VGIL financials FY2022*

Note: *ICRA has taken a consolidated view of the parent (VGIL), along its subsidiary while assigning the ratings.*

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwaala
+91 33 7150 1111
Sumit.jhunjhunwala@icraindia.com

Maitri Vira
+91 79 4027 1538
maitri.vira@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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches