

December 30, 2022

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
Cash credit	285.00	285.00	[ICRA]AA(Stable) Reaffirmed
Unallocated	19.87	-	-
Non-fund based limits	40.00	40.00	[ICRA]A1+ Reaffirmed
Term loan	-	350.00	[ICRA]AA(Stable) reaffirmed/assigned
Total	344.87	675.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation considers V-Guard Industries Limited's (VGIL) healthy revenue growth expected in the current year amid favourable demand outlook for its products. However, the profit margins are expected to be impacted due to high commodity inflation and inventory losses reported in H1 FY2023. The OPM declined to ~8% in H1 FY2023 from ~10% in FY2022. Further, the ratings note VGIL's proposed acquisition of Sunflame Enterprises Private Limited (Sunflame/SEPL) at a total consideration of Rs. 660 crore, partly funded via debt. Consequently, the liquidity position is expected to moderate, however, the debt protection metrics will remain comfortable on an absolute basis. Also, the inventory levels have remained elevated during the last 1-1.5 years due to an increase in volumes to tide against supply chain issues and increase in commodity prices. Meanwhile, its inventory levels have reduced to ~Rs. 814 crore in September 2022 and further reduced to ~Rs. 750 crore at present. This is further expected to reduce by the end of this fiscal, supporting the liquidity position. Moreover, the said acquisition has operational synergies with VGIL in terms of product category, geography, trade channel, manufacturing facility and strong brand recall of Sunflame, resulting in an increase in scale and market share of VGIL in the kitchen appliances segment.

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 is the market leader in stabilisers and has 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 45% in H1 FY2023 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 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 established position in select product categories, strong brand equity, diversified product portfolio and strong distribution network, especially in South India.

Key rating drivers and their description

Credit strengths

Comfortable financial performance to sustain in the near term – In FY2022, VGIL witnessed a revenue growth of ~29%, driven by higher volumes and firm realisation, which continued in H1 FY2023 with revenues of ~Rs. 2,000 crore. VGIL had hiked prices in FY2022 as well as in the current year, which is further expected to contribute to the top line in the near term. Moreover, acquisition of Sunflame would increase VGIL's scale from January 2023. The operating margins have been impacted in the current year owing to commodity price inflation. Going forward, with moderation in commodity prices, the margins are expected to improve. While the debt coverage indicators are expected to moderate, it is likely to remain comfortable on an absolute basis.

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 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 45% of its revenues from non-South markets in H1 FY2023 against 25% in FY2013.

Credit challenges

Large debt-funded acquisition to impact liquidity position – VGIL is expected to acquire 100% share in SEPL in the current year at a total consideration of Rs. 660 crore, which will be partly funded by debt. In the past few years, VGIL remained largely debt free, albeit Rs. 10-12 crore of channel financing debt resulting in a strong capital structure and liquidity position. However, the liquidity position would be impacted to part-fund the acquisition. Nonetheless, the working capital release from better inventory management along with unutilised working capital lines will support the liquidity position, going forward. However, any further large debt-funded acquisitions/capex will be a credit negative.

Intense competition, profit margins vulnerable to fluctuation 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 commodity/crude price fluctuations. ICRA notes that prices of copper, its key raw material, had witnessed a sharp increase in FY2022 and Q1 FY2023, and have slightly moderated since Q2 FY2023. This had impacted VGIL's profitability with the operating margin declining to ~10% in FY2022 and 7.7% in H1 FY2023 from ~12% in FY2021. Such exposure to commodity price fluctuations lead to volatility in the profit margins and cash flows of VGIL. However, the company's effective pricing mechanism ensures stability in the company's overall profit margins and mitigates these risks to a large extent.

Liquidity position: Adequate

VGIL's liquidity is adequate with steady cash accruals relative to its capex requirements. ICRA notes that VGIL is expected to acquire SEPL for a total consideration of Rs. 660 crore, which will be partly funded by debt. The proposed term loan is expected to have a moratorium of ~1 year. VGIL does not have long-term debt and utilisation of fund-based working capital lines was negligible in the last two years. In the last quarter, inventory levels have reduced, resulting in healthy cash balance. This, along with 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 through internal sources of cash and proposed term loan to fund the acquisition.

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, while maintaining its profit margins. Specific credit metrics for rating upgrade includes RoCE of 25% on a sustained basis, while maintaining its strong debt metrics.

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, with net 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 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 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	H1 FY2023
Operating income (Rs. crore)	2,721.3	3,498.2	2004.4
PAT (Rs. crore)	201.9	228.4	97.0
OPBDIT/OI (%)	11.8%	9.9%	7.7%
PAT/OI (%)	7.4%	6.5%	4.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	0.4
Total debt/OPBDIT (times)	0.2	0.2	0.3
Interest coverage (times)	52.8	43.7	42.4

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
					Dec 30, 2022	Jun 09, 2022			
1	Cash credit	Long-term	285.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Unallocated	Long-term	-	-	-	[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+	[ICRA]A1+
4	Term loan	Long term	350.0	-	[ICRA]AA (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Non-fund based	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: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	285.0	[ICRA]AA (Stable)
NA	Term Loan*	-	-	-	350.0	[ICRA]AA (Stable)
NA	Non-fund based	-	-	-	40.0	[ICRA]A1+

*Not availed yet; **Source:** Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: 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

Source: VGIL financials FY2022

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

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