

India

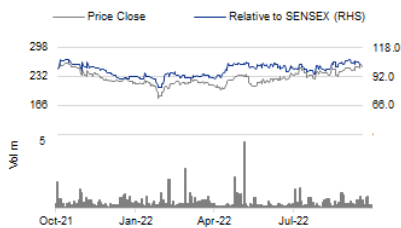
ADD (no change)

Consensus ratings*:	Buy 14 Hold 8 Sell 4
Current price:	Rs253
Target price:	Rs303
Previous target:	Rs303
Up/downside:	19.8%
InCred Research / Consensus:	16.1%
Reuters:	VGUA.NS
Bloomberg:	VGRD IN
Market cap:	US\$1,324m Rs109,258m
Average daily turnover:	US\$1.2m Rs100.1m
Current shares o/s:	433.9m
Free float:	44.1%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue raised by 4.3%/5.5%.
- FY23F/24F EBITDA raised by 0.6%/3.9%.
- FY23F/24F PAT raised by 1.1%/3.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.5	12.8	(3.1)
Relative (%)	3.7	7.4	(2.7)

Major shareholders	% held
Promoters	55.9
Sbi Small Cap Fund	9.1
Kotak Small Cap Fund	5.3

Analyst(s)



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V-Guard Industries

Low wire margin hits overall 2Q performance

- V-Guard's 2Q revenue beat while EBITDA/PAT missed estimates on lower wire sales price while input cost stayed high. Ex-wires, other businesses did better.
- In line with wire peers, we expect electrical EBIT margin to be back to 7.5-8% by 4QFY23F. Inventory to drop further to 55-60 days vs. 74 days of sales now.
- Three-fourths of the products to be manufactured in-house by Mar 2025F. Retain ADD with a target price of Rs303 based on a P/E of 42x FY24F EPS.

Revenue growth better while high-cost inventory keeps margins low

V-Guard's 2QFY23 revenue/EBITDA/PAT was at Rs9.9bn/Rs727m/Rs437m, +9%/-23%/-26% yoy, respectively. Revenue beat our/Bloomberg consensus estimates by 9%/5% while EBITDA/PAT missed estimates by 13%/20%, respectively. Segment-wise, ECD revenue was at Rs3.4bn, +21% yoy, while electricals lagged at Rs4.2bn, flat yoy. Electronics (voltage stabilizers, inverters) revenue was at Rs2.3bn, +9% yoy. Wires (part of the electrical segment) posted weak margins due to passing on of cheaper copper/aluminium prices to trade channels while costlier old raw material inventory got absorbed during 2Q. Consolidated gross/EBITDA margins stayed low at 29.2%/7.4%, down 210bp/310bp yoy, respectively, due to high-cost inventory impact on the overall business. Electronics and ECD segments' EBIT margins rose qoq. However, electricals and ECD EBIT margins are sub-par and may recover over 2HFY23F, in our view. Non-South India revenue was at Rs4bn or 43% of total sales.

Higher margins and normalized inventory likely in 2HFY23F

Most wire-making companies reported weak gross margin in 1HFY23 due to a fall in copper prices. V-Guard reported electrical segment's EBIT margin at 5.4%, down 460bp yoy and 140bp qoq, as wires account for two-thirds of the segment's revenue. Most old high-cost copper, aluminium, and PVC inventory has been exhausted while copper prices have stabilized too. V-Guard's wire margins to bounce back, in line with peers, in 2HFY23F, driving overall profitability. V-Guard stocked up higher-than-normal inventory last year to counter Covid-led supply disruption. Most inventory has been liquidated and inventory days should be back to 55-60 days of sales by Mar 2023F (adjusted for seasonal stocking).

Change in our estimates; valuation and risks

We account for 1H actuals and expect better growth in FY24F. We raise revenue and EBITDA/PAT estimates by 4%/0.6%/1% and by 5.5%/4%/3% for FY23F/24F, respectively. We estimate revenue/EBITDA/PAT CAGR of 10%/16%/20% over FY23-25F. Over the next two-to-three years, V-Guard's revenue growth and margin expansion to be driven by scale-up of growth/emerging products like switchgear, switches, kitchen appliances, coolers and geysers, and also by moving three-fourths of its manufacturing in-house, driving gross margin. We retain ADD rating on V-Guard with an unchanged target price of Rs303, based on a P/E of 42x (three-year mean) FY24F EPS. Downside risks: B2C demand softness because of high inflation, and capex delay.

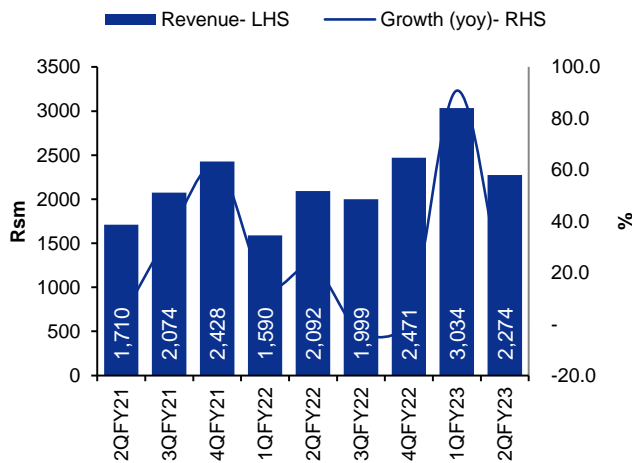
Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	27,212	34,982	41,173	45,711	50,031
Operating EBITDA (Rsm)	3,121	3,382	3,911	4,663	5,303
Net Profit (Rsm)	2,008	2,277	2,580	3,157	3,717
Core EPS (Rs)	4.7	5.3	5.9	7.3	8.6
Core EPS Growth	6.3%	13.2%	12.8%	22.4%	17.7%
FD Core P/E (x)	54.34	48.02	42.56	34.78	29.54
DPS (Rs)	1.2	1.3	1.5	2.0	2.5
Dividend Yield	0.47%	0.51%	0.59%	0.79%	0.98%
EV/EBITDA (x)	34.12	32.20	27.26	22.41	19.19
P/FCFE (x)	51.50	(67.12)	31.54	35.98	28.10
Net Gearing	(22.1%)	(3.5%)	(20.2%)	(29.2%)	(38.6%)
P/BV (x)	9.01	7.77	6.86	6.00	5.25
ROE	18.2%	17.4%	17.2%	18.4%	19.0%
% Change In Core EPS Estimates			0.63%	3.34%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

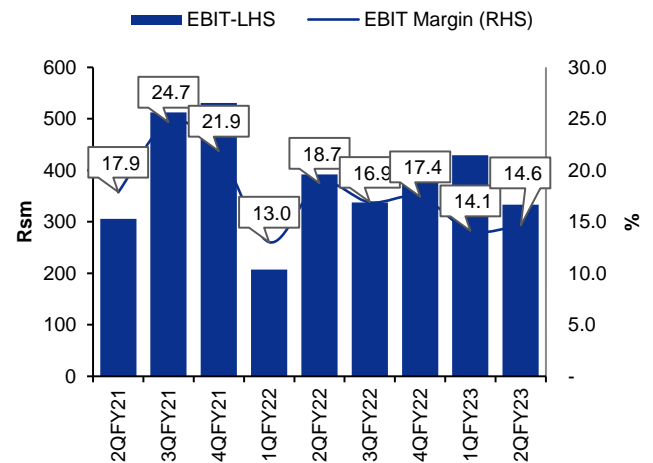
2QFY23 earnings-call takeaways

- **Demand trend and pricing:** Overall demand has been muted, impacted by high inflation. Entry-level rural demand is still slow and demand visibility for the remaining part of 2HFY23F is still not clear. V-Guard has maintained similar selling prices for both South India and non-South India markets over the last three years. The company has not taken any price hikes during the quarter.
- **Distribution:** V-Guard aims to increase its alternate channel revenue share with e-commerce, modern trade and Canteen Sales Department (CSD – police and defence) collectively accounting for ~35-40% of sales, vs. 5% currently, over the next three years.
- **Electricals:** Real estate demand has slowed down marginally, which has impacted retail wire demand during mid-Aug to mid-Sep 2022. However, wire EBIT margin fully recovered later in Sep 2022 and high-cost inventory is fully exhausted. V-Guard has relatively smaller switches and switchgear business and hence, demand softness has not impacted this segment.
- **Consumer durables:** A few categories like kitchen appliances and fan have grown higher than the industry in 2QFY23. However, fan segment's growth (mid-to-premium segment accounts for 40-50% of total fan sales) was impacted due to postponement of demand (aluminium price fall) and destocking due to BEE rating change expectation. V-Guard still carries some high-cost aluminium inventory that will be used by Dec 2022F, leading to normal ECD segment margins in 4QFY23F. The average price hike for economy and standard fans is expected to be in the 5-8% range.
- **Margins:** The company incurred around Rs160m of inventory-related loss due to higher prices of copper with commensurate lower selling prices for wires because of the fall in copper prices recently. Adjusted for that, EBITDA was at Rs887m (9% margin) vs. 7.4% reported in 2Q. V-Guard expects gross margin to normalize (increase by 2-3%) by 4QFY23F. ECD products enjoy a higher gross margin vs. company level.
- **Other expenditure:** Freight forwarding and outsourced manpower cost led to higher-than-normal opex (Rs1.5bn, +26% yoy), negatively impacting EBITDA margin. Outsourced manpower increased due to commissioning of new factories and will continue to rise as the share of in-house manufacturing goes up over the next two-to-three years.
- **Tax benefit:** V-Guard Consumer Products is a 100% subsidiary of the company which will undertake most greenfield/brownfield capex over FY23F-25F. The subsidiary is eligible for a lower effective income-tax payout of 17% of profits under the domestic manufacturing incentive scheme of the Government of India. Production from new facilities will be ramped up in FY24F. Income-tax payout could be lower by 2% from FY25F, as per management.
- **Net working capital days:** They stood at 72 days of TTM sales (improvement in debtor days to 34 days vs. 51 days as at end-Mar 2022 and inventory days at 74 days vs. 90 days as at end-Mar 2022). V-Guard still carries 10-15 days of surplus inventory that would be liquidated by Dec 2022F, and the inventory cycle to revert to 55-60 days of sales by then.
- **Capex:** The share of manufactured goods to total COGS is expected to inch towards 75% over the next three years. There are three new plants which are under construction and would start operations in the next 18 months. The company intends to incur a capex of Rs700m over FY23F-24F for new capacities.
- **Cash flow:** Operating cash flow stood at Rs2.3bn and net capex at Rs497m in 1HFY23. FCF stood at Rs 1.7bn. Consolidated net cash (including equivalents) and bank balance as at end-Sep 2022 stood at Rs1.6bn (vs. Rs 500m as at end-Mar 2022).

Figure 1: Electronics (voltage stabilizers, inverters, UPS, batteries)

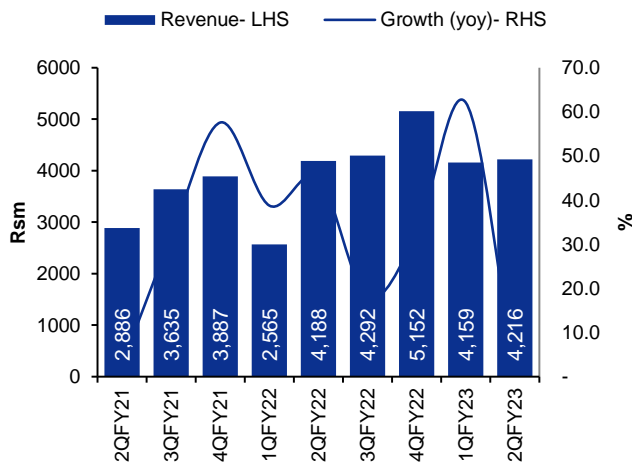


SOURCE: INCRED RESEARCH, COMPANY REPORTS

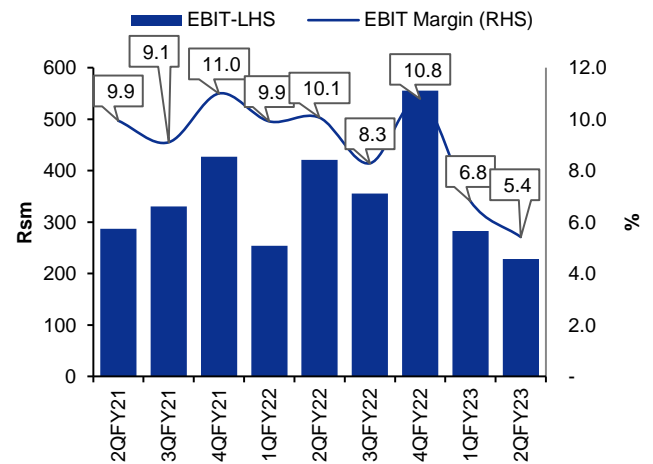


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Electricals (wires, pumps, switchgear, switches)

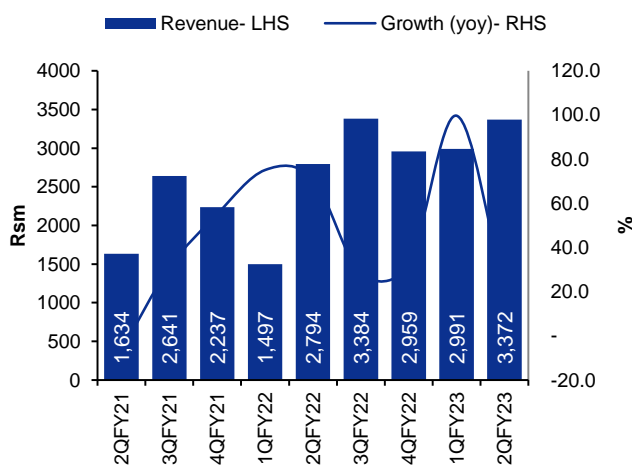


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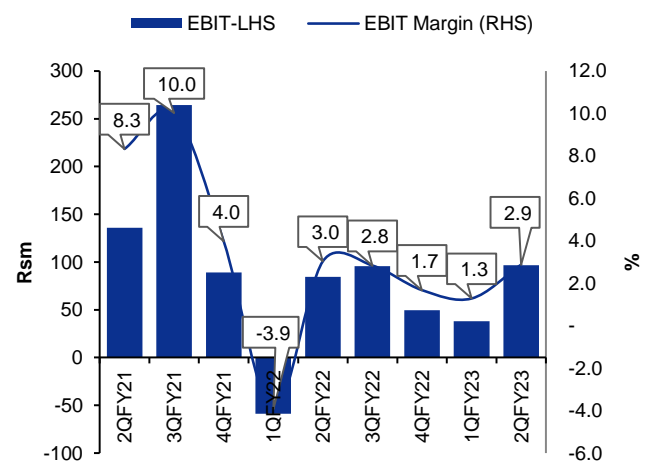


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consumer durables (water heater, fan, kitchen appliances, coolers)



SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 2QFY23 results snapshot

YE Mar (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)	H1FY23	H1FY22	yoy (%)
Revenue	9,861	9,074	8.7	10,183	(3.2)	20,044.3	14,726	36.1
EBITDA	727	949	(23.4)	820	(11.3)	1,547.5	1,404	10.2
EBITDA margin (%)	7.4	10.5	-308 bp	8.1	-68 bp	7.7	9.5	-181 bp
Adj. PAT	437	593	(26.4)	534	(18.3)	971.0	848	14.5
Diluted EPS (Rs)	1.0	1.4		1.2		2.6	2.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 2QFY23 segmental results snapshot

YE Mar (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)
Revenue					
Electronics	2,274	2,092	8.7	3,034	(25.1)
Electricals	4,216	4,188	0.7	4,159	1.4
Consumer durables	3,372	2,794	20.7	2,991	12.7
Total	9,861	9,074	8.7	10,183	(3.2)
EBIT					
Electronics	333	392	(15.1)	429	(22.4)
Electricals	228	421	(45.8)	283	(19.3)
Consumer durables	97	85	14.5	38	153.7
Total	658	898	(26.7)	750	(12.3)
EBIT margin (%)					
Electronics	14.6	18.7	-411 bp	14.1	51 bp
Electricals	5.4	10.1	-464 bp	6.8	-139 bp
Consumer durables	2.9	3.0	-15 bp	1.3	160 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Actuals vs. our estimates

Rs m	2QFY23A	2QFY23F	Var (%)
Revenue	9,861	9,045	9.0
EBITDA	727	836	(13.1)
EBITDA margin (%)	7.4	9.2	-187 bp
Adj. PAT	437	548	(20.3)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: Actuals vs. Bloomberg consensus

Rs m	2QFY23A	2QFY23C	Var (%)
Revenue	9,861	9,355	5.4
EBITDA	727	837	(13.2)
EBITDA margin (%)	7.4	9.0	-158 bp
Adj. PAT	437	546	(20.1)

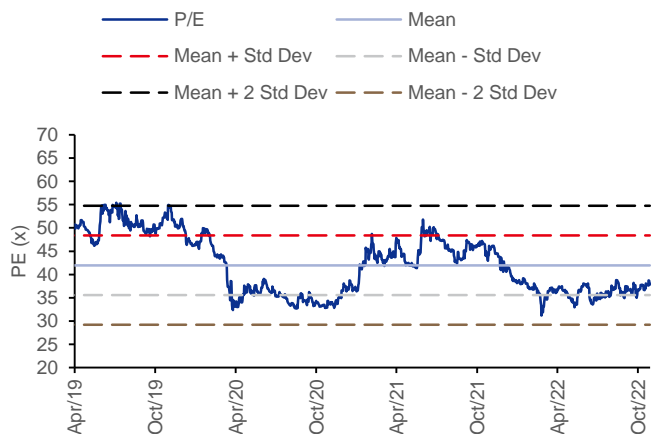
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: Our revised estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	41,173	45,711	50,031	39,461	43,337	NA	4.3	5.5	NA
EBITDA	3,911	4,663	5,303	3,887	4,485	NA	0.6	3.9	NA
Adjusted consol. PAT	2,580	3,157	3,717	2,553	3,042	NA	1.1	3.8	NA
EPS	5.9	7.3	8.6	5.9	7.0	NA	0.6	3.3	NA
EBITDA margin (%)	9.5	10.2	10.6	9.8	10.4	NA	-35 bp	-15 bp	NA

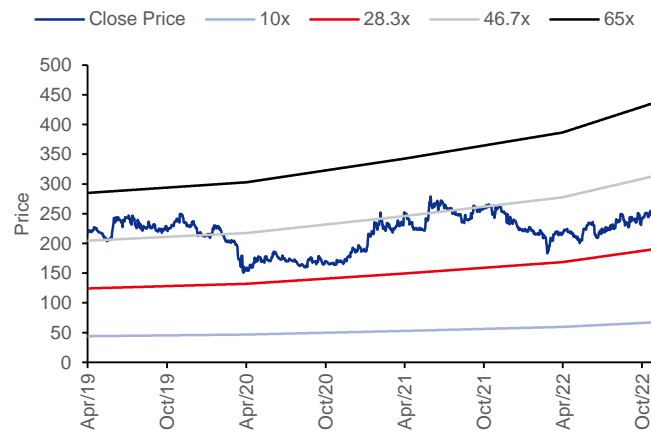
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: P/E SD chart (three-year mean P/E)



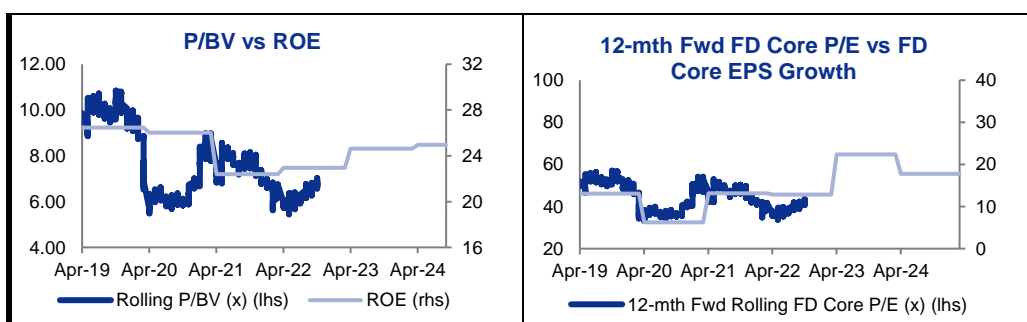
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: P/E band chart (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	27,212	34,982	41,173	45,711	50,031
Gross Profit	8,687	10,843	12,969	14,970	16,760
Operating EBITDA	3,121	3,382	3,911	4,663	5,303
Depreciation And Amortisation	(386)	(491)	(586)	(675)	(759)
Operating EBIT	2,735	2,891	3,326	3,988	4,544
Financial Income/(Expense)	121	(5)	24	128	239
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	25	54	100	102	104
Profit Before Tax (pre-EI)	2,881	2,940	3,449	4,217	4,888
Exceptional Items					
Pre-tax Profit	2,881	2,940	3,449	4,217	4,888
Taxation	(862)	(655)	(869)	(1,065)	(1,176)
Exceptional Income - post-tax					
Profit After Tax	2,019	2,284	2,580	3,152	3,712
Minority Interests	(11)	(7)		5	5
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,008	2,277	2,580	3,157	3,717
Recurring Net Profit	2,008	2,277	2,580	3,157	3,717
Fully Diluted Recurring Net Profit	2,008	2,277	2,580	3,157	3,717

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	3,121	3,382	3,911	4,663	5,303
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(413)	(3,195)	983	(207)	(49)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(132)	278	124	230	343
Net Interest (Paid)/Received	(75)	37	(24)	(128)	(239)
Tax Paid	(737)	(888)	(869)	(1,065)	(1,176)
Cashflow From Operations	1,764	(387)	4,125	3,492	4,183
Capex	(648)	(1,246)	(750)	(650)	(600)
Disposals Of FAs/subsidiaries	1	1			
Acq. Of Subsidiaries/investments	917	12			
Other Investing Cashflow	139	35	99	210	325
Cash Flow From Investing	409	(1,198)	(651)	(440)	(275)
Debt Raised/(repaid)	(52)	(42)			
Proceeds From Issue Of Shares	46	5			
Shares Repurchased					
Dividends Paid	(1)	(516)	(647)	(863)	(1,079)
Preferred Dividends					
Other Financing Cashflow	(51)	(61)	(76)	(82)	(86)
Cash Flow From Financing	(57)	(615)	(723)	(945)	(1,165)
Total Cash Generated	2,116	(2,200)	2,752	2,107	2,744
Free Cashflow To Equity	2,121	(1,627)	3,475	3,052	3,908
Free Cashflow To Firm	2,122	(1,655)	3,399	2,970	3,822

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	2,812	613	3,364	5,471	8,215
Total Debtors	3,881	4,841	5,640	6,262	6,854
Inventories	6,315	8,596	7,332	7,514	7,539
Total Other Current Assets	1,003	1,152	1,356	1,505	1,647
Total Current Assets	14,010	15,202	17,692	20,752	24,254
Fixed Assets	3,658	3,813	3,997	3,972	3,813
Total Investments	334	337	337	337	337
Intangible Assets	37	37	37	37	37
Total Other Non-Current Assets	711	1,578	1,559	1,559	1,559
Total Non-current Assets	4,739	5,765	5,929	5,904	5,745
Short-term Debt	130	118	118	118	118
Current Portion of Long-Term Debt					
Total Creditors	4,747	4,880	5,640	6,262	6,854
Other Current Liabilities	1,050	1,166	1,128	1,252	1,371
Total Current Liabilities	5,927	6,164	6,886	7,632	8,342
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	662	678	678	678	678
Total Non-current Liabilities	662	678	678	678	678
Total Provisions					
Total Liabilities	6,589	6,842	7,564	8,310	9,020
Shareholders Equity	12,113	14,070	16,002	18,296	20,935
Minority Interests	47	55	55	50	44
Total Equity	12,160	14,124	16,057	18,346	20,979

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	8.7%	28.6%	17.7%	11.0%	9.5%
Operating EBITDA Growth	21.0%	8.4%	15.6%	19.2%	13.7%
Operating EBITDA Margin	11.5%	9.7%	9.5%	10.2%	10.6%
Net Cash Per Share (Rs)	6.22	1.15	7.48	12.34	18.66
BVPS (Rs)	28.09	32.57	36.88	42.17	48.25
Gross Interest Cover	44.84	36.68	43.98	48.56	53.03
Effective Tax Rate	29.9%	22.3%	25.2%	25.3%	24.1%
Net Dividend Payout Ratio	18.0%	19.1%	18.8%	20.4%	22.0%
Accounts Receivables Days	47.78	45.50	46.46	47.52	47.84
Inventory Days	109.40	112.73	103.07	88.14	82.57
Accounts Payables Days	76.83	72.78	68.07	70.66	71.94
ROIC (%)	30.0%	29.5%	23.8%	30.3%	34.1%
ROCE (%)	26.0%	22.3%	22.5%	24.2%	24.6%
Return On Average Assets	16.6%	14.8%	15.4%	16.3%	16.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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