

India

ADD (no change)

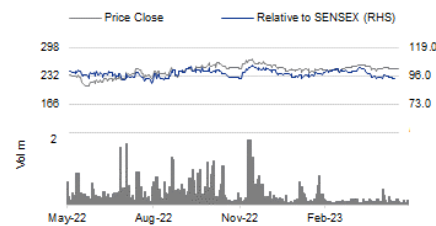
Consensus ratings*: Buy 16 Hold 6 Sell 3

Current price:	Rs251
Target price:	Rs290 ▲
Previous target:	Rs269
Up/downside:	15.5%
InCred Research / Consensus:	1.2%
Reuters:	VGUA.NS
Bloomberg:	VGRD IN
Market cap:	US\$1,494m Rs108,497m
Average daily turnover:	US\$0.7m Rs49.2m
Current shares o/s:	432.2m
Free float:	44.2%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue raised by 9.5%/11.2%.
- FY24F/25F EBITDA raised by 16.6%/15%.
- FY24F/25F PAT cut by 1.3%/0.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.5)	2.1	7.1
Relative (%)	(3.8)	(3.2)	(5.2)

Major shareholders	% held
Promoters	55.8
Sbi Small Cap Fund	9.3
Kotak Emerging Equity Scheme	6.0

Analyst(s)



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V-Guard Industries

In-line 4Q; consolidates Sunflame fully

- Excl.one-time cost/Sunflame financials, V-Guard's 4Q revenue/EBITDA in line. Gross/EBITDA margins up qoq. Sunflame sales/EBITDA: Rs570m/Rs90m.
- Management targets revenue growth of 15%/30% yoy and EBITDA margin of 10-11%/12-13%, for V-Guard and Sunflame, respectively, in FY24F.
- Net debt at Rs3.5bn on account of Sunflame payout. B2C demand recovery to be key monitorable. Roll-over to FY25F with higher TP of Rs290. Retain ADD.

Excluding one-offs & Sunflame, 4QFY23 revenue and EBITDA in line

Consolidated (incl. Sunflame) revenue/EBITDA/PAT of V-Guard Industries (V-Guard) stood at Rs11.4bn/Rs987m/Rs527m, respectively, in 4QFY23. Excluding the one-time cost of Rs100m (included in other expenses) related to Sunflame integration and excluding Sunflame financials, revenue & EBITDA were in line with our/Bloomberg consensus estimates in 4Q. Adj. PAT (excl. interest on Sunflame buyout debt of ~Rs80m) missed estimates by 8-10% due to lower other income and a higher tax rate (27%) in 4Q. Electronics (mostly voltage stabilizers) sales recovered and grew to Rs2.7bn, +10% yoy. Electricals and consumer durable segments' revenues were subdued and stood at Rs5.3bn and Rs2.9bn, +2% yoy and down 3% yoy, respectively. The recovery in room AC stabilizer sales, volatile copper prices leading to wire channel destocking, high channel inventory in ceiling fans and weak B2C demand were key reasons for divergent segment revenue trends. V-Guard (ex-Sunflame) gross/EBITDA margins recovered to 30.9%/9.2%, +130bp/+250bp qoq, respectively, as the input cost fell qoq. Sunflame's revenue/EBITDA/EBIT were at Rs570m/Rs90m/Rs80m, respectively, in 4Q.

Non-South India sales & Sunflame to drive revenue, margin growth

V-Guard's non-South India revenue stood at Rs18.4bn, +26% yoy, and accounted for 45% of total revenue. The South India distribution reach has matured for V-Guard and the revenue growth there would largely reflect industry growth trend (CAGR of 6-9%), barring the growth triggered from new product introductions, as per management. Most market share gains and reach expansion is happening in non-South India regions. Management gave guidance of a similar trend continuing, and it targets revenue growth of 15%/30% yoy and EBITDA margin of 10-11%/12-13% for V-Guard and Sunflame, respectively, in FY24F. Sunflame's revenue growth will be driven by online/modern trade (10-12% of total sales vs. 40-45% for the industry) channel expansion over the next two-to-three years.

Change in our estimates, valuation and risks; retain ADD rating

We alter growth/margin assumptions for V-Guard and consolidate Sunflame over FY24F-25F. Revenue/EBITDA to rise by 10-17% while there's no meaningful PAT change due to the higher interest cost over FY24F-25F. Sunflame buyout to be EPS positive from FY24F. We roll over to FY25F with a higher TP of Rs290 (Rs269 earlier) based on a P/E of 36x (10% discount to 10-year mean) FY25F EPS. We cut exit P/E to account for stiffness in core market growth and unforeseen integration issues. Downside risk: Demand recovery.

Financial Summary

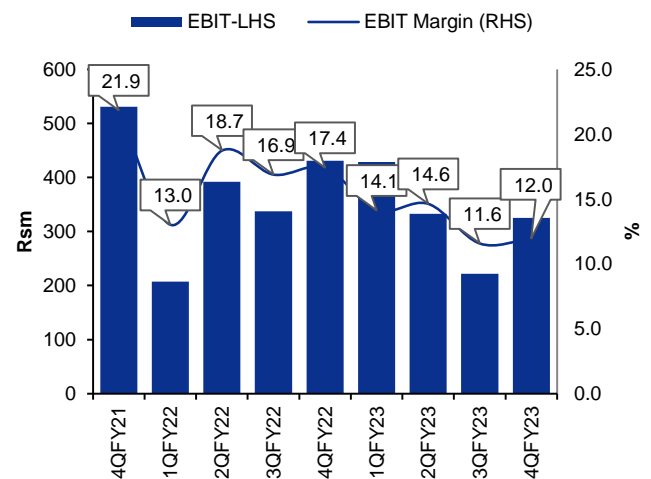
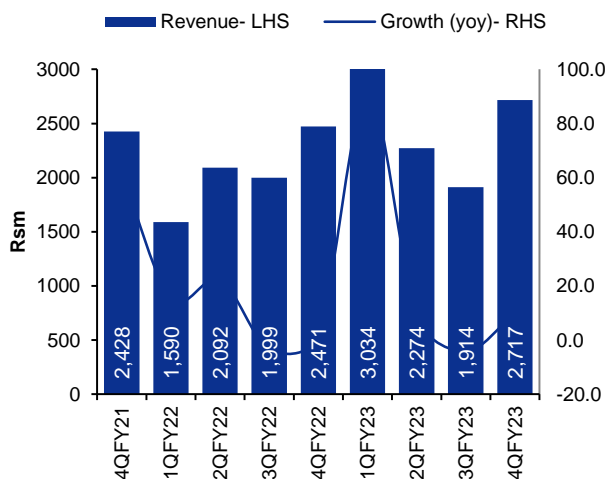
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	27,212	34,982	41,260	49,748	55,592
Operating EBITDA (Rsm)	3,121	3,382	3,199	4,900	5,837
Net Profit (Rsm)	2,008	2,277	1,890	2,712	3,492
Core EPS (Rs)	4.7	5.3	4.4	6.3	8.1
Core EPS Growth	6.3%	13.2%	(17.2%)	43.8%	28.8%
FD Core P/E (x)	53.90	47.63	57.52	40.01	31.07
DPS (Rs)	1.2	1.3	1.3	1.7	2.2
Dividend Yield	0.48%	0.52%	0.52%	0.70%	0.90%
EV/EBITDA (x)	33.84	31.94	35.08	22.70	18.71
P/FCFE (x)	51.08	(66.58)	221.43	93.33	62.28
Net Gearing	(22.1%)	(3.5%)	21.9%	15.2%	3.6%
P/BV (x)	8.94	7.71	6.76	6.02	5.28
ROE	18.2%	17.4%	12.5%	15.9%	18.1%
% Change In Core EPS Estimates				(0.95%)	(0.24%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY23 earnings-call summary

- Growth and margin guidance:** V-Guard expects revenue growth of 14-15% yoy (ex-Sunflame) in FY24F. Gross margin is expected to be at pre-Covid level of 32-33% in 1HFY24F as input prices decline further. Sunflame’s revenue target is Rs4-4.25bn and EBITDA margin is expected in the range of 12-13% in FY24F.
- Demand hit by inflation:** B2C demand remained weak in 4Q and most of Apr/May 2023 as consumer spending is still reeling under inflationary pressure. Volatile summer conditions in the northern and western regions of India also negatively impacted summer product sales across the industry. Management expects the sentiment to improve from the start of the festival season in Aug 2023, and believes that 2HFY24F will be better vs 1H.
- Sunflame is now a 100% subsidiary:** Sunflame to remain as a separate entity and will operate as a 100% subsidiary of V-Guard Industries. The manufacturing set-up, distribution channel and operating cost structures of Sunflame are highly different vs. V-Guard. Management prefers to initiate the integration benefits first, in the form of revenue growth, led by channel expansion into online and modern trade and then move towards cost synergy.
- Geographical revenue mix:** Non-South India sales stood at Rs18.4bn, +26% yoy, and accounted for 45% of total sales in FY23. Management expects non-South India growth to continue to outperform its matured South India market’s sales going ahead. South India sales to have a revenue CAGR of 6-9% while non-South India’s revenue to grow faster at a 14-18% CAGR over the next two-to-three years. Sunflame is also a non-South India-dominant business with only 15-17% of its sales witnessed in South India states.
- One-time expense:** V-Guard booked a one-time integration expense of Rs100m on account of consolidation of Sunflame in 4QFY23. Operating expenses of Rs1.7bn (Ex-Sunflame 4Q P&L) must be adjusted for like-to-like yoy/qoq comparison.
- Debt:** V-Guard has a net debt of Rs3.5bn at the end of Mar 2023. Most of this is due to Sunflame acquisition debt of Rs2.75bn (three-year repayment period) and drawing of unutilized vendor finance of V-Guard to fund the Rs6.8bn Sunflame buyout.
- Cash flow:** FY23 OCF/FCF stood at Rs4.2bn/Rs3.2bn, respectively. The working capital release was to the tune of Rs1.4bn, as abnormally high post-Covid inventory normalized. Management expects additional release of working capital of Rs700-800m in FY24F. V-Guard’s board has recommended a dividend of Rs1.3/share, or ~30% payout, for FY23.

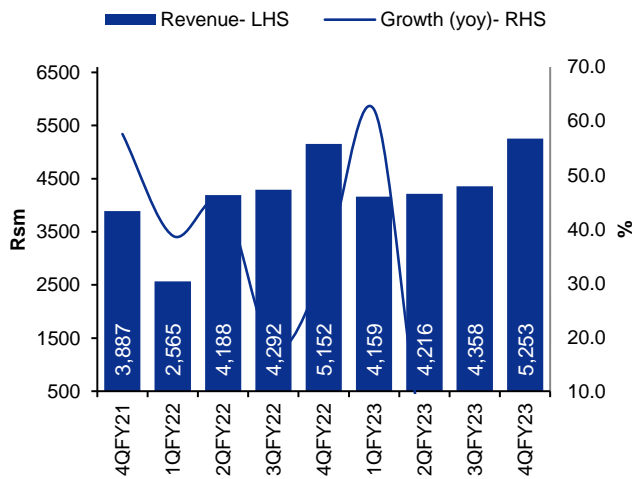
Figure 1: Electronics (voltage stabilizers, inverters, UPS, batteries)



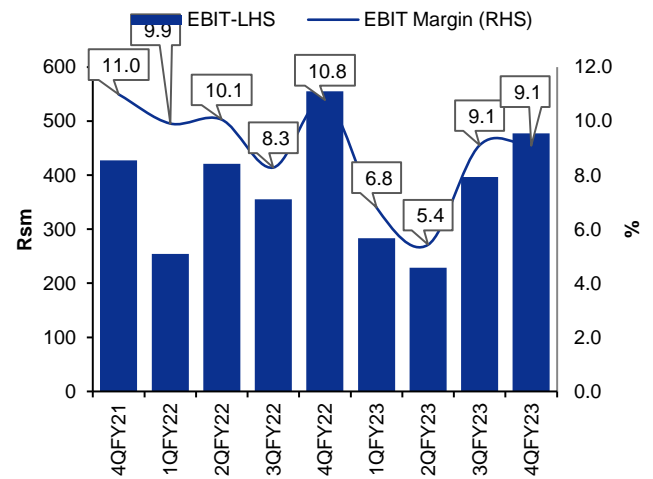
SOURCE: INCRED RESEARCH, COMPANY REPORTS

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

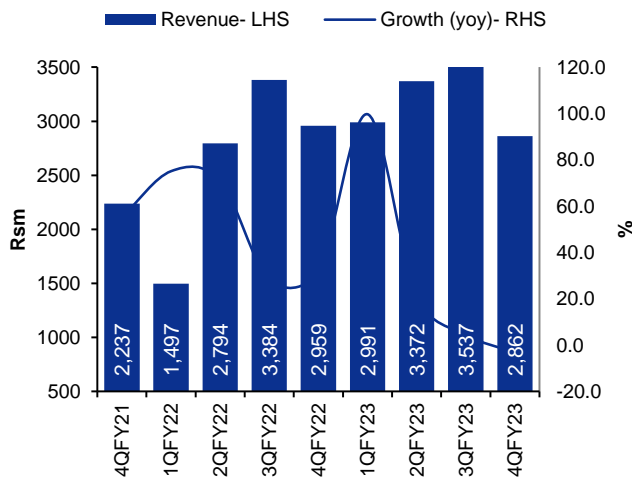


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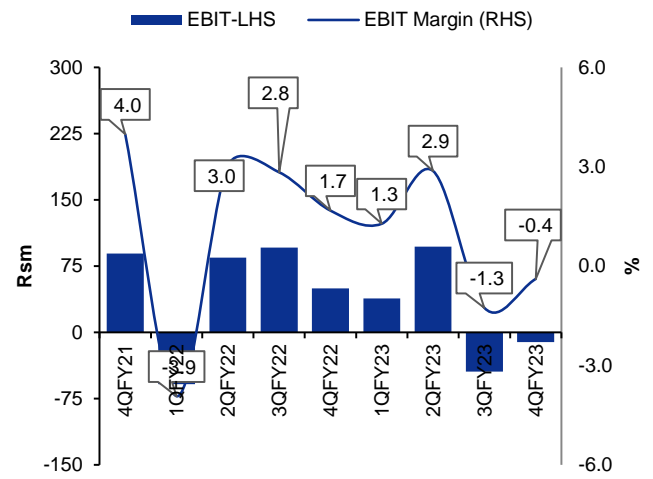


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consumer durables (water heaters, fans, kitchen appliances, coolers)



SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 4QFY23 results snapshot

Y/E Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue	11,401	10,582	7.7	9,808	16.2	41,260	34,982	17.9
EBITDA	987	1,110	(11.1)	659	49.8	3,199	3,382	(5.4)
EBITDA margin (%)	8.7	10.5	-184 bp	6.7	194 bp	7.8	9.7	-191 bp
Adj. PAT	527	897	(41.2)	393	34.2	1,890	2,277	(17.0)
Diluted EPS (Rs)	1.2	2.1		0.9		4.4	5.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 4QFY23 segmental results snapshot

Y/E Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue								
Electronics	2,717	2,471	10.0	1,914	42.0	9,940	8,151	21.9
Electricals	5,253	5,152	2.0	4,358	20.5	17,988	16,197	11.1
Consumer Durables	2,862	2,959	(3.3)	3,537	(19.1)	12,763	10,634	20.0
Sunflame	569	NA		NA		569	NA	
Total	11,401	10,582	7.7	9,808	16.2	41,260	34,982	17.9
EBIT								
Electronics	325	431	(24.5)	222	46.7	1,309	1,368	(4.3)
Electricals	478	555	(14.0)	397	20.4	1,386	1,586	(12.6)
Consumer Durables	-11	50	(122.7)	-45	(74.8)	79	171	(53.8)
Sunflame	80	NA		NA		80	NA	
Total	871	1,036	(15.9)	574	51.9	2,773	3,124	(11.2)
EBIT margin (%)								
Electronics	12.0	17.4	-546 bp	11.6	38 bp	13.2	16.8	-361 bp
Electricals	9.1	10.8	-169 bp	9.1	-1 bp	7.7	9.8	-209 bp
Consumer Durables	-0.4	1.7	-207 bp	-1.3	87 bp	0.6	1.6	-99 bp
Sunflame	14.0	NA		NA		14.0	NA	
Total	7.6	9.8	-214 bp	5.8	179 bp	6.7	8.9	-221 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Actuals vs. our estimates (consolidated basis)

Rs m	4QFY23	4QFY23F	Var (%)
Revenue	11,401	10,850	5.1
EBITDA	987	1,009	(2.2)
EBITDA margin (%)	8.7	9.3	-65 bp
Adj. PAT	527	653	(19.3)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: Actuals vs. Bloomberg consensus estimates (consol.)

Rs m	4QFY23	4QFY23C	Var (%)
Revenue	11,401	11,089	2.8
EBITDA	987	971	1.6
EBITDA margin (%)	8.7	8.8	-10 bp
Adj. PAT	527	668	(21.1)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: Actuals vs. our estimates (LTL basis)

Rs m	4QFY23	4QFY23F	Var (%)
Revenue	10,832	10,850	(0.2)
EBITDA	992	1,009	(1.7)
EBITDA margin (%)	8.2	9.3	-107 bp
Adj. PAT	662	653	1.4

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus estimates (LTL basis)

Rs m	4QFY23	4QFY23C	Var (%)
Revenue	10,832	11,089	(2.3)
EBITDA	992	971	2.2
EBITDA margin (%)	8.2	8.8	-52 bp
Adj. PAT	662	668	(0.9)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	49,748	55,592	45,426	49,996	9.5	11.2
EBITDA	4,900	5,837	4,202	5,075	16.6	15.0
Adjusted consol. PAT	2,712	3,492	2,748	3,514	-1.3	-0.6
EPS	6.3	8.1	6.3	8.1	-1.0	-0.2
EBITDA margin (%)	9.9	10.5	9.2	10.2	60 bp	35 bp

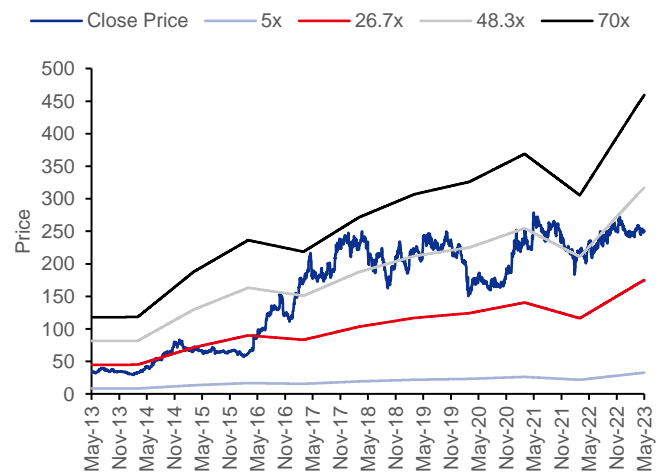
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: P/E standard deviation (10-year mean)



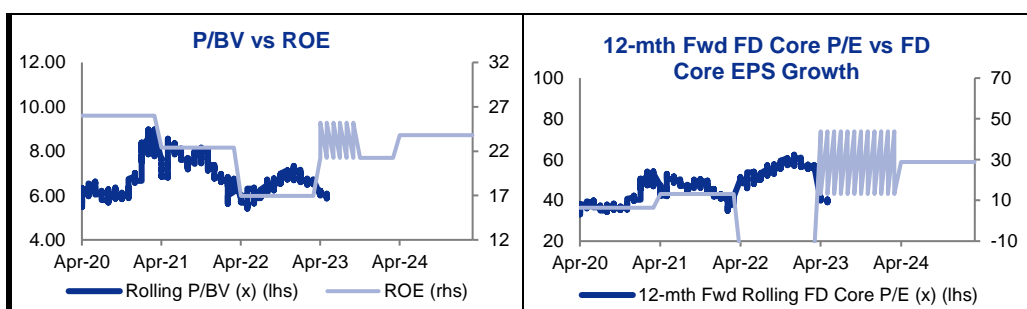
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band (1-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	27,212	34,982	41,260	49,748	55,592
Gross Profit	8,687	10,843	12,416	16,044	18,206
Operating EBITDA	3,121	3,382	3,199	4,900	5,837
Depreciation And Amortisation	(386)	(491)	(644)	(981)	(1,069)
Operating EBIT	2,735	2,891	2,555	3,919	4,768
Financial Income/(Expense)	121	(5)	(141)	(346)	(228)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	25	54	143	50	55
Profit Before Tax (pre-EI)	2,881	2,940	2,557	3,624	4,595
Exceptional Items					
Pre-tax Profit	2,881	2,940	2,557	3,624	4,595
Taxation	(862)	(655)	(667)	(912)	(1,103)
Exceptional Income - post-tax					
Profit After Tax	2,019	2,284	1,891	2,712	3,492
Minority Interests	(11)	(7)	(1)		
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,008	2,277	1,890	2,712	3,492
Recurring Net Profit	2,008	2,277	1,890	2,712	3,492
Fully Diluted Recurring Net Profit	2,008	2,277	1,890	2,712	3,492

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	3,121	3,382	3,199	4,900	5,837
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(413)	(3,195)	1,414	(1,177)	(584)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(132)	278	(24)	(296)	(173)
Net Interest (Paid)/Received	(75)	37	138	346	228
Tax Paid	(737)	(888)	(488)	(912)	(1,103)
Cashflow From Operations	1,764	(387)	4,238	2,861	4,206
Capex	(648)	(1,246)	(1,012)	(975)	(1,002)
Disposals Of FAs/subsidiaries	1	1			
Acq. Of Subsidiaries/investments	917	12	(6,721)		
Other Investing Cashflow	139	35	21	27	38
Cash Flow From Investing	409	(1,198)	(7,712)	(948)	(964)
Debt Raised/(repaid)	(52)	(42)	3,964	(750)	(1,500)
Proceeds From Issue Of Shares	46	5	20		
Shares Repurchased					
Dividends Paid	(1)	(516)	(561)	(756)	(972)
Preferred Dividends					
Other Financing Cashflow	(51)	(61)	(162)	(373)	(267)
Cash Flow From Financing	(57)	(615)	3,261	(1,879)	(2,739)
Total Cash Generated	2,116	(2,200)	(212)	34	503
Free Cashflow To Equity	2,121	(1,627)	490	1,164	1,742
Free Cashflow To Firm	2,122	(1,655)	(3,635)	1,541	2,975

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	2,812	613	670	704	1,207
Total Debtors	3,881	4,841	5,687	7,087	7,920
Inventories	6,315	8,596	7,674	8,587	9,138
Total Other Current Assets	1,003	1,152	1,021	1,363	1,523
Total Current Assets	14,010	15,202	15,052	17,741	19,789
Fixed Assets	3,658	3,813	8,850	8,932	8,865
Total Investments	334	337	352	352	352
Intangible Assets	37	37	2,528	2,528	2,528
Total Other Non-Current Assets	711	1,578	2,205	2,118	2,118
Total Non-current Assets	4,739	5,765	13,935	13,929	13,862
Short-term Debt	130	118	1,467	1,205	680
Current Portion of Long-Term Debt					
Total Creditors	4,747	4,880	4,885	6,542	7,311
Other Current Liabilities	1,050	1,166	1,814	1,636	1,828
Total Current Liabilities	5,927	6,164	8,167	9,383	9,819
Total Long-term Debt			2,729	2,241	1,266
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	662	678	1,065	1,065	1,065
Total Non-current Liabilities	662	678	3,794	3,306	2,330
Total Provisions			951	951	951
Total Liabilities	6,589	6,842	12,911	13,639	13,100
Shareholders Equity	12,113	14,070	16,076	18,031	20,551
Minority Interests	47	55			
Total Equity	12,160	14,124	16,076	18,031	20,551

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	8.7%	28.6%	17.9%	20.6%	11.7%
Operating EBITDA Growth	21.0%	8.4%	(5.4%)	53.2%	19.1%
Operating EBITDA Margin	11.5%	9.7%	7.8%	9.8%	10.5%
Net Cash Per Share (Rs)	6.22	1.15	(8.14)	(6.34)	(1.71)
BVPS (Rs)	28.09	32.57	37.13	41.72	47.55
Gross Interest Cover	44.84	36.68	15.78	10.51	17.88
Effective Tax Rate	29.9%	22.3%	26.1%	25.2%	24.0%
Net Dividend Payout Ratio	18.0%	19.1%	22.0%	20.9%	21.2%
Accounts Receivables Days	47.78	45.50	46.57	46.86	49.27
Inventory Days	109.40	112.73	102.94	88.05	86.53
Accounts Payables Days	76.83	72.78	61.79	61.88	67.62
ROIC (%)	30.0%	29.5%	18.3%	18.4%	21.3%
ROCE (%)	26.0%	22.3%	14.5%	18.1%	21.0%
Return On Average Assets	16.6%	14.8%	10.8%	13.1%	14.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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