



India

REDUCE (previously ADD)

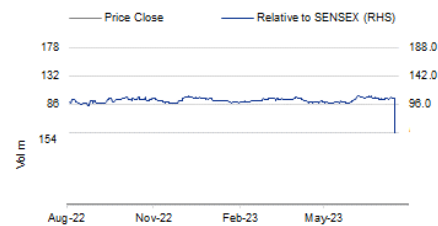
Consensus ratings*: Buy 18 Hold 6 Sell 3

Current price:	Rs308
Target price:	Rs290
Previous target:	Rs290
Up/downside:	-5.8%
InCred Research / Consensus:	2.9%
Reuters:	VGUA.NS
Bloomberg:	VGRD IN
Market cap:	US\$1,841m Rs133,700m
Average daily turnover:	US\$1.0m Rs76.0m
Current shares o/s:	432.2m
Free float:	44.4%

*Source: Bloomberg

Key changes in this note

- FY24F revenue cut by 0.5%.
- FY24F/25F EBITDA cut by 3.5%/4.7%
- FY24F/25F PAT raised/cut by 5.8%/(0.4%).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.4	23.6	30.0
Relative (%)	6.3	16.5	17.5

Major shareholders	% held
Promoters	55.6
Sbi Small Cap Fund	9.2
Kotak Emerging Equity Scheme	6.4

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V-Guard Industries**Fewer positive surprises likely going ahead**

- 1QFY24 electronics & ECD sales growth beat estimates. Supportive weather in South/East India aided voltage stabilizer, inverter, fan and air-cooler sales.
- Management expects better demand and higher margins in 2HFY24F. Sunflame's FY24F revenue guidance cut to Rs3.3-3.5bn vs. Rs4bn earlier.
- Most of the catch-up in voltage stabilizer sales, gross/EBITDA margins & inventory cut is over. Incremental positives are few. Downgrade to REDUCE.

Revenue beats estimates; adjusted EBITDA/PAT in line

On a like-to-like (LTL) basis (excl. Sunflame), 1QFY24 revenue/EBITDA/PAT of V-Guard Industries (VGL) stood at Rs11.5bn/Rs972m/Rs599m, +13%/19%/12% yoy, respectively. Revenue beat our/Bloomberg consensus estimates by 9%. Adjusted for one-time gains, EBITDA and adjusted PAT were in line with our estimates while they beat consensus estimates by 14-17%. Consol. gross/EBITDA margins were at 32.5%/8.6%, +250bp/+50bp yoy, respectively. The electronics segment's revenue stood at Rs3.6bn, +20% yoy, beating our estimate by 21%, due to demand recovery for voltage stabilizers in South/East India. The segment's EBIT margin was at 16.1%, +194bp yoy and 411bp qoq. The electrical segment's revenue stood at Rs4.6bn, +10% yoy, while the EBIT margin was at 6.3%, down 45bp yoy and 275bp qoq, owing to higher advertising expenses (1.8% of sales) for house wires. The consumer durables segment's revenue was at Rs3.3bn, +11% yoy, while it achieved break-even at the EBIT level. Consol. other income was at Rs118m, +4x yoy, including Rs70m gain on revaluation of 18.8% equity stake in Gegadyne. Implied Sunflame revenue/EBITDA/PAT stood at Rs632m/Rs75m/Rs43m with the EBITDA margin at 12%.

2HFY24 to be better but lower versus earlier expectations

The discretionary spending declined, impacting B2C demand over the past nine months. Management expects a better 2HFY24F leading to revenue recovery in the electricals/consumer durables segments and higher gross/EBITDA margins due to cheaper input cost and operating leverage. Management retained its revenue growth guidance of 15%+ yoy but cut margin guidance to 9-9.5% (implies +170bp yoy) for VGL in FY24F. For Sunflame, its revenue guidance has been cut to Rs3.3-3.5bn vs. Rs4bn earlier.

Change in our estimates, valuation and risks

We fine tune our FY24F-25F estimates, largely retaining revenue estimates but cut the EBITDA margin to 9.5-10% vs. 10-10.5% earlier. We account for faster acquisition debt repayment leading to lower interest costs and a one-time revaluation gain on investments. This implies an EBITDA cut of 3.5-5% over FY24F-25F. We have raised PAT by 6% for FY24F while retaining our earlier PAT for FY25F. The stock price has risen 20%+ since Jun 2023. Most of the catch-up in revenue growth, margins & working capital reduction is over and incremental improvements are limited, in our view. We retain our target price of Rs290 (P/E of 36x FY25F EPS, near 10-year mean) on the stock but downgrade its rating to REDUCE (ADD earlier). Upside risk: Higher-than-expected sales growth and margins.

Financial Summary

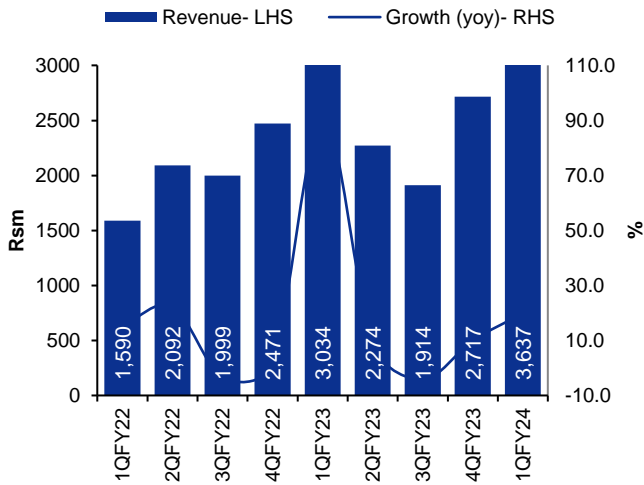
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	27,212	34,982	41,260	49,509	55,601
Operating EBITDA (Rsm)	3,121	3,382	3,199	4,728	5,560
Net Profit (Rsm)	2,008	2,277	1,890	2,868	3,477
Core EPS (Rs)	4.7	5.3	4.4	6.6	8.0
Core EPS Growth	6.3%	13.2%	(17.2%)	52.1%	21.2%
FD Core P/E (x)	66.21	58.52	70.66	46.47	38.33
DPS (Rs)	1.2	1.3	1.3	1.5	1.7
Dividend Yield	0.39%	0.42%	0.42%	0.49%	0.57%
EV/EBITDA (x)	41.76	39.26	42.84	28.44	23.79
P/FCFE (x)	62.75	(81.79)	272.01	68.51	95.36
Net Gearing	(22.1%)	(3.5%)	21.9%	6.6%	(4.8%)
P/BV (x)	10.98	9.47	8.31	7.28	6.34
ROE	18.2%	17.4%	12.5%	16.7%	17.7%
% Change In Core EPS Estimates				5.78%	(0.43%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

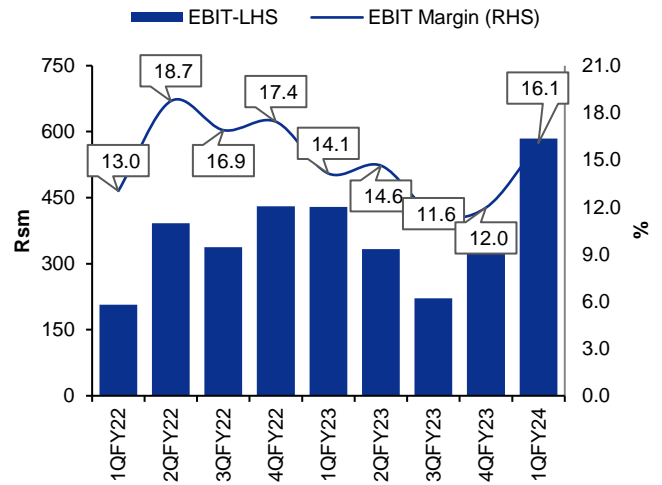
1QFY24 earnings-call highlights

- **Growth and margin guidance:** VGL indicated that its electronics segment's long-term revenue CAGR will be 8-9% while in FY24F it will be higher. New product launches in the ECD segment to lead to faster revenue growth for the segment vs. electronics and electricals. On a consolidated basis, there is still potential to improve gross margin by 1-1.5%, given the under-recovery in fans due to no pass-through of higher production cost of star-rated fans and old high-cost inventory of water heaters yet to be liquidated. Some of the gross margin gains would be reinvested into sales and marketing initiatives. Advertising expenses need to be at ~3% of sales vs. 2.2% in 1QFY24, as per management's growth plan. Inventory has been largely normalized and can be further reduced by 5-7 days by Mar 2024F. Kitchen appliances witnessed unprecedented demand during the Covid-19 pandemic and since then the demand has continued to soften. VGL's management now expects a revenue growth of 15% yoy vs. 30% earlier for Sunflame in FY24F.
- **Geographical revenue mix:** Non-South India revenue stood at Rs5.6bn, +18% yoy, and accounted for 48% of total sales in 1QFY24. South India revenue stood at Rs5.9bn, +11% yoy. VGL aspires to achieve a non-South India revenue salience of 60% of total sales over the next three years.
- **Electrical segment's margins:** House wires accounted for largest revenue share (~65%) in the electrical segment for VGL. The company launched a one-time advertisement campaign relating to house wires in 1QFY24, leading to additional expenses to the tune of 1.8% of the electrical segment's sales, impacting the segment's margins. The electrical segment's EBIT margin thus declined to 6.3%, down 50bp yoy and 275bp qoq, but is expected to recover going ahead as the advertising expenses normalize.
- **Investment revaluation gain:** VGL had acquired a 18.8% equity stake in Gegadyne Energy Labs Private Limited for a cash consideration of Rs344m in Jan 2021. Based on accounting norms, the investment must be assessed for a fair valuation periodically. VGL accounted for Rs70m of the revaluation gain on this investment in 1Q. The investment value in the case of Gegadyne was higher at ~Rs400m at the end of Jun 2023.
- **Advertisement expenses:** VGL spent 2.2% of its sales on advertisement and promotion in 1QFY24 (vs. 2% yoy). The company aspires for ~3% of sales as advertisement expenditure to be funded from the recovery in gross margin over the remaining period of this financial year.
- **Capex:** Management retained its capex guidance of Rs1-1.1bn annually for FY24F and FY25F.
- **Acquisition debt:** Net debt stood at Rs2bn at the end of Jun 2023. Of the ~Rs4bn acquisition debt for Sunflame, VGL has repaid Rs1.5bn and the remaining would be repaid over FY25F-26F.
- **Cash flow:** OCF stood at Rs2.1bn in 1QFY24, led by reduction in inventory and debtors to the tune of Rs1.25bn qoq. Core working capital improved to 70 days (vs. 85 days qoq) at the end of Jun 2023. Management expects the inventory days to further reduce by 5-7 days and debtor days to be maintained between 40-45 days of sales at the end of Mar 2024F.

Figure 1: Electronics segment's (voltage stabilizers, inverters, UPS, batteries) revenue growth

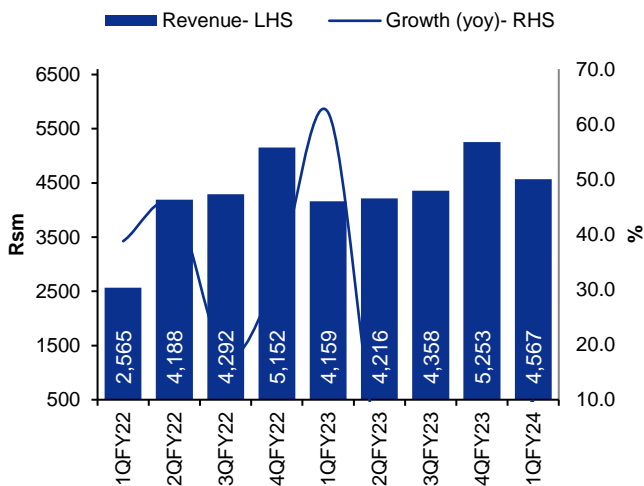


SOURCE: INCRED RESEARCH, COMPANY REPORTS

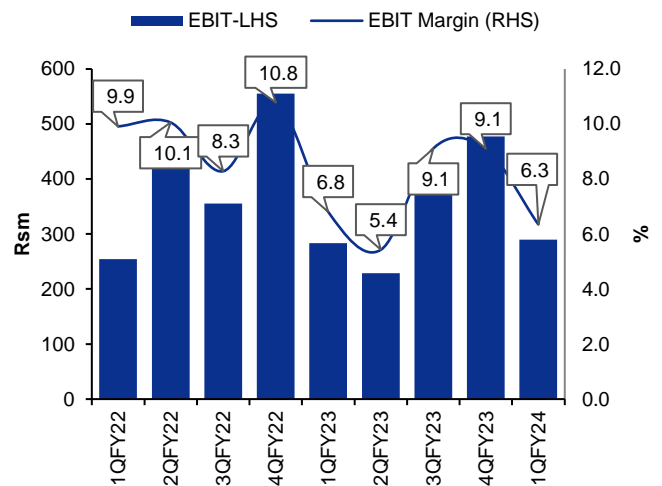


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Electricals (wire, pump, switchgear, switches) segment's revenue growth

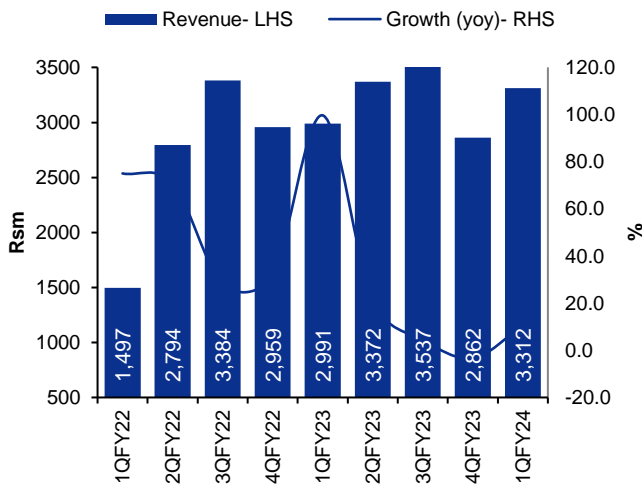


SOURCE: INCRED RESEARCH, COMPANY REPORTS

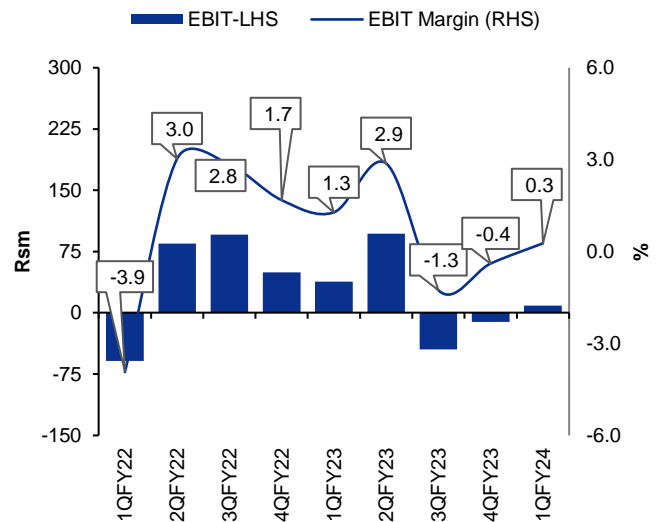


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consumer durables (water heater, fan, kitchen appliances, cooler) segment's revenue growth



SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 1QFY24 results snapshot (consolidated)

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	12,148	10,183	19.3	11,401	6.5
EBITDA	1,048	820	27.7	987	6.2
EBITDA margin (%)	8.6	8.1	57 bp	8.7	-3 bp
Adj. PAT	642	534	20.2	527	21.8
Diluted EPS (Rs)	1.5	1.2		1.2	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 1QFY24 results snapshot (ex-Sunflame)

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	11,516	10,183	13.1	10,832	6.3
EBITDA	972	820	18.5	992	(2.0)
EBITDA margin (%)	8.4	8.1	39 bp	9.2	-72 bp
Adj. PAT	599	534	12.1	662	(9.5)
Diluted EPS (Rs)	1.4	1.2		1.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 1QFY24 segmental results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue					
Electronics	3,637	3,034	19.9	2,717	33.9
Electricals	4,567	4,159	9.8	5,253	(13.1)
Consumer durables	3,312	2,991	10.7	2,862	15.7
Sunflame	632	NA		569	11.0
Total	12,148	10,183	19.3	11,401	6.5
EBIT					
Electronics	585	429	36.3	325	79.8
Electricals	290	283	2.4	478	(39.3)
Consumer durables	9	38	(76.9)	-11	(178.2)
Sunflame	58	NA		80	(26.9)
Total	942	750	25.6	871	8.1
EBIT margin (%)					
Electronics	16.1	14.1	194 bp	12.0	411 bp
Electricals	6.3	6.8	-46 bp	9.1	-274 bp
Consumer durables	0.3	1.3	-101 bp	-0.4	66 bp
Sunflame	9.2	NA		14.0	-479 bp
Total	7.8	7.4	39 bp	7.6	11 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Sunflame's performance

Rs m	1QFY24	4QFY23	qoq (%)
Revenue	632	569	11.0
EBITDA	75	-5	NA
EBITDA margin (%)	11.9	-1.0	NA
Adj. PAT	43	-135	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates (ex-Sunflame)

Rs m	1QFY24	1QFY24F	Var (%)
Revenue	11,516	10,541	9.2
EBITDA	972	983	(1.1)
EBITDA margin (%)	8.4	9.3	-88 bp
Adj. PAT	599	519	15.4

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs. Bloomberg consensus estimates (ex-Sunflame)

Rs m	1QFY24	1QFY24F	Var (%)
Revenue	11,516	10,532	9.3
EBITDA	972	852	14.1
EBITDA margin (%)	8.4	8.1	35 bp
Adj. PAT	599	469	27.9

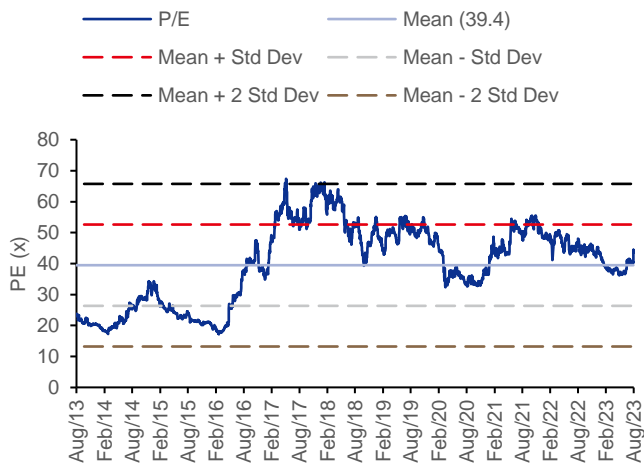
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	49,509	55,601	49,748	55,592	-0.5	0.0
EBITDA	4,728	5,560	4,900	5,837	-3.5	-4.7
Adjusted consol. PAT	2,868	3,477	2,712	3,492	5.8	-0.4
EPS	6.6	8.0	6.3	8.1	5.8	-0.4
EBITDA margin (%)	9.5	10.0	9.9	10.5	-30 bp	-50 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: P/E standard deviation (10-year mean)



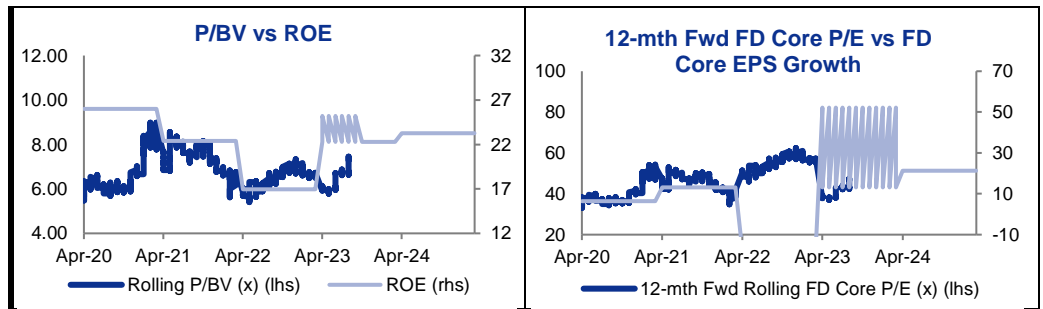
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: P/E band (one-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	49,509	55,601
Gross Profit	8,687	10,843	12,416	16,214	18,432
Operating EBITDA	3,121	3,382	3,199	4,728	5,560
Depreciation And Amortisation	(386)	(491)	(644)	(851)	(941)
Operating EBIT	2,735	2,891	2,555	3,877	4,619
Financial Income/(Expense)	121	(5)	(141)	(269)	(94)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	25	54	143	225	50
Profit Before Tax (pre-EI)	2,881	2,940	2,557	3,833	4,575
Exceptional Items					
Pre-tax Profit	2,881	2,940	2,557	3,833	4,575
Taxation	(862)	(655)	(667)	(965)	(1,098)
Exceptional Income - post-tax					
Profit After Tax	2,019	2,284	1,891	2,868	3,477
Minority Interests	(11)	(7)	(1)		
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,008	2,277	1,890	2,868	3,477
Recurring Net Profit	2,008	2,277	1,890	2,868	3,477
Fully Diluted Recurring Net Profit	2,008	2,277	1,890	2,868	3,477

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	3,121	3,382	3,199	4,728	5,560
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(413)	(3,195)	1,414	221	(461)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(132)	278	(24)	(44)	(44)
Net Interest (Paid)/Received	(75)	37	138	269	94
Tax Paid	(737)	(888)	(488)	(965)	(1,098)
Cashflow From Operations	1,764	(387)	4,238	4,210	4,051
Capex	(648)	(1,246)	(1,012)	(971)	(997)
Disposals Of FAs/subsidiaries	1	1			
Acq. Of Subsidiaries/investments	917	12	(6,721)		
Other Investing Cashflow	139	35	21	58	93
Cash Flow From Investing	409	(1,198)	(7,712)	(913)	(904)
Debt Raised/(repaid)	(52)	(42)	3,964	(1,350)	(1,750)
Proceeds From Issue Of Shares	46	5	20		
Shares Repurchased					
Dividends Paid	(1)	(516)	(561)	(648)	(756)
Preferred Dividends					
Other Financing Cashflow	(51)	(61)	(162)	(327)	(188)
Cash Flow From Financing	(57)	(615)	3,261	(2,325)	(2,694)
Total Cash Generated	2,116	(2,200)	(212)	972	453
Free Cashflow To Equity	2,121	(1,627)	490	1,947	1,398
Free Cashflow To Firm	2,122	(1,655)	(3,635)	2,970	2,960

SOURCE: INCRED RESEARCH, COMPANY REPORTS

