

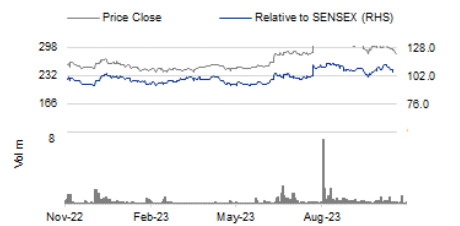
India

**REDUCE** (no change)

Consensus ratings*: Buy 15 Hold 5 Sell 5	
Current price:	Rs285
Target price:	Rs275
Previous target:	Rs290
Up/downside:	-3.5%
InCred Research / Consensus:	-12.8%
Reuters:	VGUA.NS
Bloomberg:	VGRD IN
Market cap:	US\$1,481m
	Rs123,339m
Average daily turnover:	US\$1.4m
	Rs115.7m
Current shares o/s:	433.5m
Free float:	44.4%
*Source: Bloomberg	

**Key changes in this note**

- FY24F revenue/EBITDA/PAT cut by 1.9%/4.5%/5.3%, respectively.
- FY25F revenue/EBITDA/PAT cut by 1.9%/2.9%/4.6%, respectively.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	0.6	(9.8)	8.6
Relative (%)	2.6	(8.6)	1.6

<b>Major shareholders</b>	% held
Promoters	55.6
Sbi Small Cap Fund	9.2
Kotak Emerging Equity Scheme	6.7

**Analyst(s)**



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# V-Guard Industries

## ECD & appliances sales all set to recover

- Barring the ECD margin staying too low & a Rs100m one-time revaluation gain, 2Q was largely in line with expectations. Gross margin at 33.8%, +450bp yoy.
- Fans, water heaters & kitchen appliances demand was soft, leading to sub-par revenue growth for the ECD segment & Sunflame. 2H should see a recovery.
- The net working capital cycle should stabilize at 60-65 days. Sunflame, at best, would equal FY23 sales in FY24F. Retain REDUCE with a lower TP of Rs275.

### Electronics & electrical products sales in line; ECD segment weak

On a like-to-like (LTL) basis (excl. Sunflame), revenue/EBITDA/PAT of V-Guard industries (VGL) stood at Rs10.7bn/872m/563m, +9%/20%/29% yoy, respectively. Consolidated revenue/EBITDA/PAT stood at Rs11.4bn/Rs925m/Rs590m, +15%/27%/35% yoy, respectively, largely in line with our/Bloomberg consensus estimates. Consolidated gross/EBITDA margins stood at 33.8%/8.2%, +452bp/+78bp yoy. The electronics segment's revenue stood at Rs2.5bn, +12% yoy, while the EBIT margin was at 14.8%, +18bp yoy. The electrical segment's revenue was at Rs4.6bn, +10% yoy, while the EBIT margin stood at 8.3%, +287bp yoy. The consumer durables (ECD) segment's revenue stood at Rs3.5bn, +5% yoy, while EBIT was nil. Water heaters, fans & kitchen appliances sales remained soft in 2Q and is likely to recover in the festive season spread over Oct-Nov 2023. Implied Sunflame revenue/EBITDA/PAT stood at Rs617m/Rs53m/Rs27m, respectively, with the EBITDA margin at 8.5%. Consolidated other income was higher at Rs142m, as it included ~Rs100m MTM revaluation of investment in Gegadyne Energy.

### Higher sales growth/margins in 2H likely on a low base, WC too ideal

In line with its peers, VGL also expects B2C demand pick-up in the ongoing festive season and sustain the momentum as inflation declines. Early Oct 2023 witnessed good e-commerce sales while general trade sales are yet to pick up. A cold winter in Nov 2023-Jan 2024F followed by a hot summer season in Mar-May 2024F across India to aid durable sales in 2HFY24F. We expect revenue/EBITDA/PAT growth of 18%/54%/62% yoy, respectively, in 2HFY24F on a very low base of last year. We expect WC days to normalize at 60-65 days by Mar 2024F. Additionally, the company's board has approved an increase in equity stake (to 24.32% from 18.8%) in Gegadyne Energy at a cost of Rs200m.

### Cut estimates by 2-6% for FY24F/25F; retain REDUCE rating

We account for 1HFY24 actuals and build in a gradual recovery in ECD margins. Cut revenue/EBITDA/PAT by 2-6% over FY24F-25F & introduce FY26F estimates. We expect revenue/EBITDA/PAT CAGR of 14%/24%/28%, respectively, over FY23-26F. We expect a fall in OCF as the working capital or WC cycle normalizes in 2HFY24F. Most of the catch-up in voltage stabilizer sales, margins & working capital reduction is over and incremental positive surprises are limited, in our view. We retain REDUCE rating on VGL with a lower target price of Rs275 (P/E of 36x FY25F EPS, near 10-year mean) from Rs290 earlier. Upside risk: Faster B2C segment's recovery.

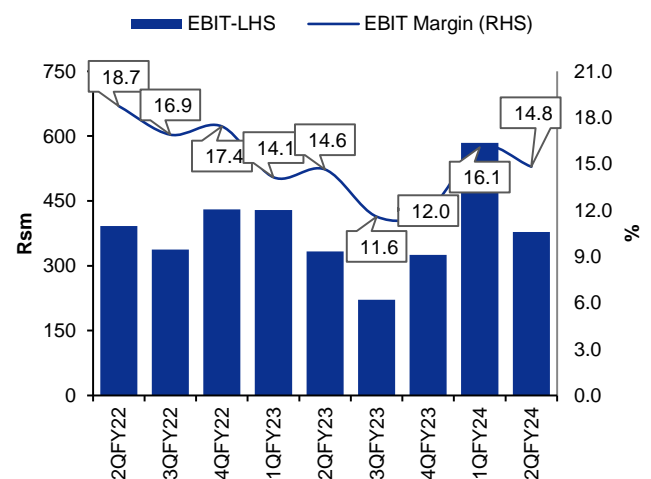
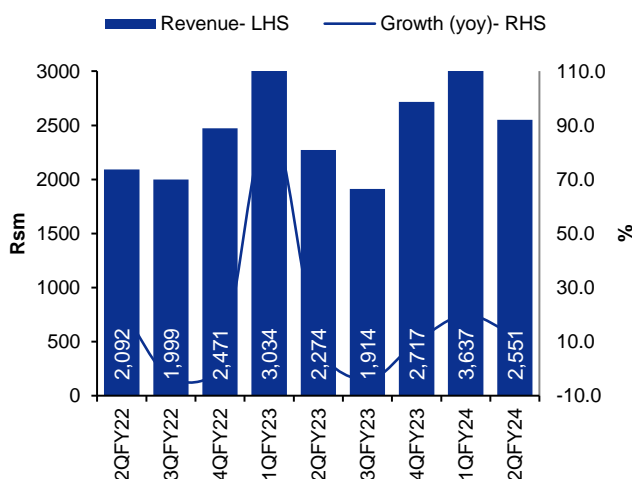
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	34,982	41,260	48,545	54,559	60,786
Operating EBITDA (Rsm)	3,382	3,199	4,515	5,401	6,170
Net Profit (Rsm)	2,277	1,890	2,715	3,315	3,956
Core EPS (Rs)	5.3	4.4	6.3	7.6	9.1
Core EPS Growth	13.2%	(17.2%)	43.7%	21.9%	19.3%
FD Core P/E (x)	53.98	65.19	45.35	37.20	31.18
DPS (Rs)	1.3	1.3	1.3	2.0	2.2
Dividend Yield	0.46%	0.46%	0.46%	0.70%	0.79%
EV/EBITDA (x)	36.21	39.61	27.89	23.03	19.86
P/FCFE (x)	(75.45)	250.93	166.54	118.69	59.46
Net Gearing	(3.5%)	21.9%	15.3%	5.2%	(3.3%)
P/BV (x)	8.74	7.66	6.76	5.96	5.21
ROE	17.4%	12.5%	15.8%	17.0%	17.8%
% Change In Core EPS Estimates			(5.48%)	(4.95%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 2QFY24 earnings-call highlights

- Guidance:** VGL expects to catch up on the under-recovery in input cost pressure and estimates an additional 100bp expansion in the gross margin over 2HFY24F. Sunflame had a soft 2HFY23 and hence, management expects a good 2HFY24F and meet at least equal FY23 sales of Rs3bn in FY24F.
- Regional sales mix:** Non-South India (ex-Sunflame) revenue stood at Rs4.7bn, +12% yoy, and accounted for 44% of total sales in 2QFY24. South India (ex-Sunflame) revenue stood at Rs6.0bn, +7% yoy, contributing 56% to total sales.
- In-house manufacturing mix:** The outsourcing has reduced over time and in-house manufactured products account for 65% of the company's total sales vs. 58% yoy.
- ECD segment's margins:** Air coolers, water heaters, fans and small kitchen appliances have seen a soft demand trend over 1H. Owing to lower sales throughput, the ECD segment's margins have stayed sub-par (almost nil vs. long-term past average of 4-6%). High competition in water heaters and fans (one of the large segments for V-Guard within the ECD segment) has not allowed timely price hikes to mitigate increased input costs. Management expects to take marginal price hikes as the festive season progresses and the benefit from old high-cost raw material fading would aid margins too.
- Fans segment update:** The premium category (MRP >Rs3k) fans contribute 40-45% to total fan sales of the company.
- Increased investment in GEL:** VGL had approved an investment of Rs200m in the securities of Gegadyne Energy Labs or GEL. This will increase the stake of VGL in GEL to 24.32% (from 18.8% earlier) and hence, GEL will be classified as an associate entity of VGL from 3QFY24.. The implied equity valuation of Gegadyne has jumped to Rs2.9bn, +30%, since the first investment done in Jan 2021.
- One-time income:** Other income stood at Rs142m, +331% yoy, on account of ~Rs100m mark-to-market (MTM) revaluation gains booked on the investment book value of GEL.
- Cash conversion cycle:** OCF stood at Rs3.3bn and FCF was at Rs2.5bn in 1HFY24. Net working capital improved to 49 days (vs. 68 days at the end of Mar 2023) at the end of Sep 2023. Net debt stood at Rs1.6bn at the end of Sep 2023.

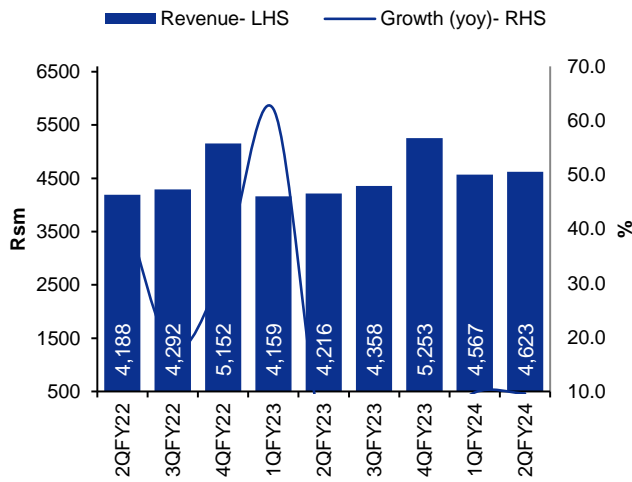
Figure 1: Electronics business (voltage stabilizers, inverters, UPS, batteries)



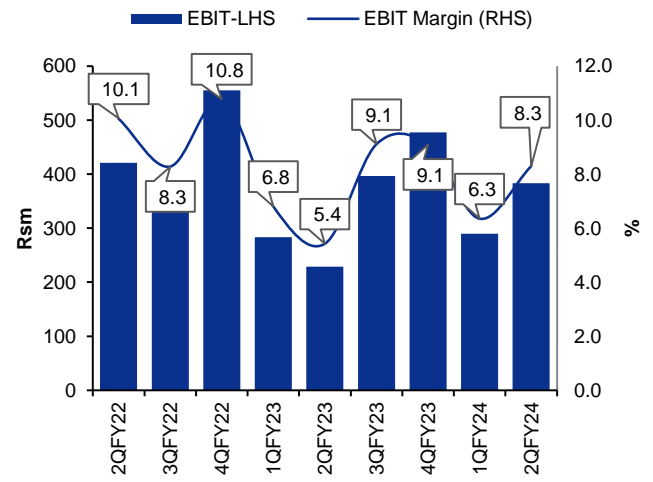
SOURCE: INCRED RESEARCH, COMPANY REPORTS

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

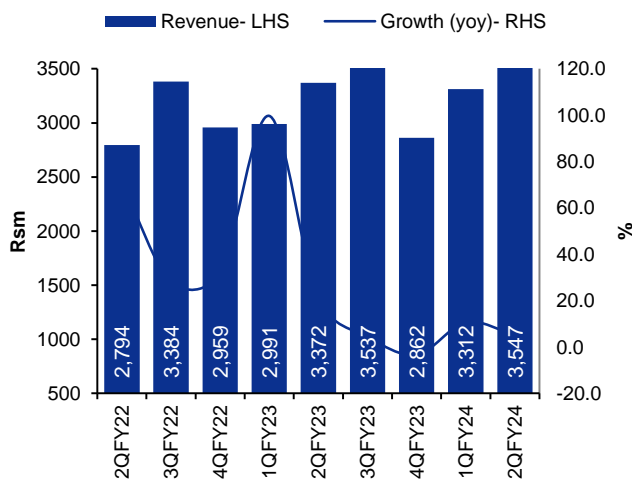


SOURCE: INCRED RESEARCH, COMPANY REPORTS

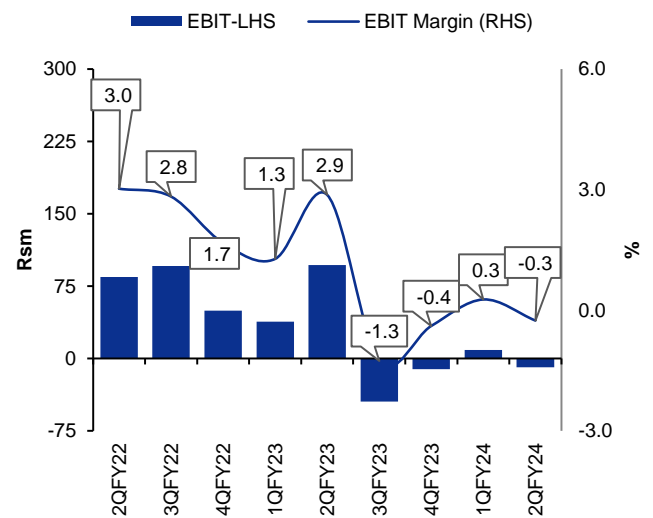


SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: 2QFY24 results snapshot (Consolidated)**

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy (%)
Revenue	11,338	9,861	15.0	12,148	(6.7)	23,485	20,044	17.2
EBITDA	925	727	27.2	1,048	(11.7)	1,972	1,547	27.5
EBITDA margin (%)	8.2	7.4	78 bp	8.6	-47 bp	8.4	7.7	68 bp
Adj. PAT	590	437	35.0	642	(8.2)	1,232	971	26.8
Diluted EPS (Rs)	1.4	1.0		1.5		3.3	2.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: 2QFY24 results snapshot (Ex-Sunflame)**

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)
Revenue	10,720	9,861	8.7	11,516	(6.9)
EBITDA	872	727	20.0	972	(10.3)
EBITDA margin (%)	8.1	7.4	76 bp	8.4	-30 bp
Adj. PAT	563	437	28.9	599	(6.0)
Diluted EPS (Rs)	1.3	1.0		1.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: 2QFY24 segmental results snapshot**

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy (%)
<b>Revenue</b>								
Electronics	2,551	2,274	12.2	3,637	(29.9)	6,188	5,307	16.6
Electricals	4,623	4,216	9.6	4,567	1.2	9,190	8,375	9.7
Consumer Durables	3,547	3,372	5.2	3,312	7.1	6,858	6,362	7.8
Sunflame	617	NA		632	(2.3)	1,249	-	NA
<b>Total</b>	<b>11,338</b>	<b>9,861</b>	<b>15.0</b>	<b>12,148</b>	<b>(6.7)</b>	<b>23,485</b>	<b>20,044</b>	<b>17.2</b>
<b>EBIT</b>								
Electronics	378	333	13.6	585	(35.3)	963	762	26.4
Electricals	383	228	67.8	290	32.2	673	511	31.6
Consumer Durables	-9	97	(109.5)	9	(204.5)	-0	135	(100.3)
Sunflame	37	NA		58	(36.6)	NA	NA	NA
<b>Total</b>	<b>789</b>	<b>658</b>	<b>19.9</b>	<b>942</b>	<b>(16.2)</b>	<b>1,635</b>	<b>1,408</b>	<b>16.1</b>
<b>EBIT margin (%)</b>								
Electronics	14.8	14.6	18 bp	16.1	-125 bp	15.6	14.4	120 bp
Electricals	8.3	5.4	287 bp	6.3	194 bp	7.3	6.1	122 bp
Consumer Durables	-0.3	2.9	-313 bp	0.3	-53 bp	-0.0	2.1	-213 bp
Sunflame	-	NA		9.2	-925 bp	-	-	NA
<b>Total</b>	<b>7.0</b>	<b>6.7</b>	<b>29 bp</b>	<b>7.8</b>	<b>-79 bp</b>	<b>7.0</b>	<b>7.0</b>	<b>-6 bp</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Sunflame's financials**

(Rs m)	4QFY23	1QFY24	2QFY24
<b>Net Sales</b>	<b>569</b>	<b>632</b>	<b>617</b>
Other operating income			
<b>Total income</b>	<b>569</b>	<b>632</b>	<b>617</b>
Consumption of raw materials	351	408	400
Change in inventory			
Purchase of traded goods			
Staff costs	28	36	45
FX loss	0	0	0
Other expenditure	195	112	119
<b>Total expenditure</b>	<b>574</b>	<b>556</b>	<b>565</b>
<b>EBITDA</b>	<b>-5</b>	<b>75</b>	<b>53</b>
<i>EBITDA margin (%)</i>	<i>-1.0</i>	<i>11.9</i>	<i>8.5</i>
Depreciation	19	22	22
<b>EBIT</b>	<b>-24</b>	<b>54</b>	<b>31</b>
Gross int expns & bank charges	80	1	1
Gross Interest and financial income	0	0	0
Other recurring income	-10	4	6
Extraordinary income/(expenses)	100	0	0
Share of profits/(losses) from associates	0	0	0
Minority interest	0	0	0
<b>PBT</b>	<b>-115</b>	<b>58</b>	<b>36</b>
Tax - Current	-222	24	-17
Tax - Deferred	242	-10	27
<b>Reported consolidated PAT</b>	<b>-35</b>	<b>43</b>	<b>27</b>
<b>Adjusted PATAMI</b>	<b>-135</b>	<b>43</b>	<b>27</b>
<b>Cash profits</b>	<b>936</b>	<b>830</b>	<b>815</b>
Gross margin	38.4	35.3	35.1
PAT margin (%)	-6.1	6.8	4.3
Tax rate (%)	-17.2	25.2	27.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 8: Actuals vs. our estimates**

Rs m	2QFY24	2QFY24F	Var (%)
Revenue	11,338	11,590	(2.2)
EBITDA	925	956	(3.3)
EBITDA margin (%)	8.2	8.2	-9 bp
<b>Adj. PAT</b>	<b>590</b>	<b>533</b>	<b>10.6</b>

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 9: Actuals vs. Bloomberg consensus**

Rs m	2QFY24	2QFY24C	Var (%)
Revenue	11,338	11,424	(0.8)
EBITDA	925	991	(6.7)
EBITDA margin (%)	8.2	8.7	-52 bp
<b>Adj. PAT</b>	<b>590</b>	<b>572</b>	<b>3.1</b>

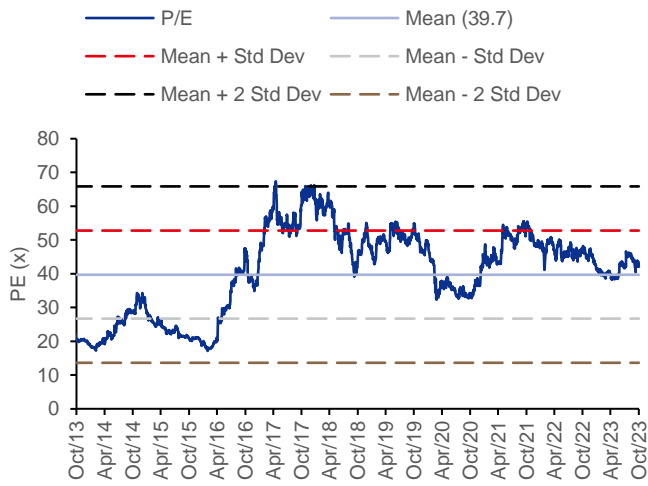
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

**Figure 10: Our revised estimates**

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	48,545	54,559	60,786	49,509	55,601	NA	-1.9	-1.9	NA
EBITDA	4,515	5,401	6,170	4,728	5,560	NA	-4.5	-2.9	NA
<b>Adjusted consol. PAT</b>	<b>2,715</b>	<b>3,315</b>	<b>3,956</b>	<b>2,868</b>	<b>3,477</b>	NA	<b>-5.3</b>	<b>-4.6</b>	NA
EPS	6.3	7.6	9.1	6.6	8.0	NA	-5.5	-4.9	NA
<b>EBITDA margin (%)</b>	<b>9.3</b>	<b>9.9</b>	<b>10.2</b>	<b>9.5</b>	<b>10.0</b>	NA	<b>-25 bp</b>	<b>-10 bp</b>	NA

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



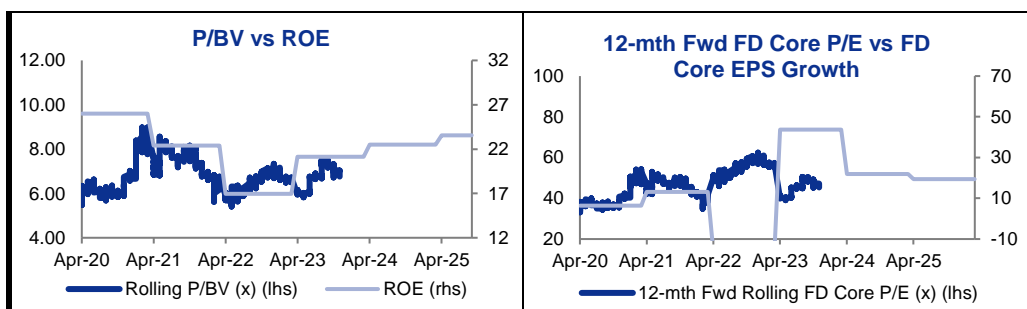
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

**BY THE NUMBERS**



**Profit & Loss**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>34,982</b>	<b>41,260</b>	<b>48,545</b>	<b>54,559</b>	<b>60,786</b>
<b>Gross Profit</b>	<b>10,843</b>	<b>12,416</b>	<b>16,141</b>	<b>18,277</b>	<b>20,515</b>
<b>Operating EBITDA</b>	<b>3,382</b>	<b>3,199</b>	<b>4,515</b>	<b>5,401</b>	<b>6,170</b>
Depreciation And Amortisation	(491)	(644)	(852)	(932)	(1,010)
<b>Operating EBIT</b>	<b>2,891</b>	<b>2,555</b>	<b>3,662</b>	<b>4,470</b>	<b>5,160</b>
Financial Income/(Expense)	(5)	(141)	(309)	(193)	(47)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	54	143	275	100	110
<b>Profit Before Tax (pre-EI)</b>	<b>2,940</b>	<b>2,557</b>	<b>3,629</b>	<b>4,377</b>	<b>5,222</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>2,940</b>	<b>2,557</b>	<b>3,629</b>	<b>4,377</b>	<b>5,222</b>
Taxation	(655)	(667)	(913)	(1,061)	(1,266)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>2,284</b>	<b>1,891</b>	<b>2,715</b>	<b>3,315</b>	<b>3,956</b>
Minority Interests	(7)	(1)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>2,277</b>	<b>1,890</b>	<b>2,715</b>	<b>3,315</b>	<b>3,956</b>
Recurring Net Profit	2,277	1,890	2,715	3,315	3,956
<b>Fully Diluted Recurring Net Profit</b>	<b>2,277</b>	<b>1,890</b>	<b>2,715</b>	<b>3,315</b>	<b>3,956</b>

**Cash Flow**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>3,382</b>	<b>3,199</b>	<b>4,515</b>	<b>5,401</b>	<b>6,170</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,195)	1,414	(1,096)	(639)	(1,075)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	278	(24)	(204)	(93)	63
Net Interest (Paid)/Received	37	138	309	193	47
Tax Paid	(888)	(488)	(913)	(1,061)	(1,266)
<b>Cashflow From Operations</b>	<b>(387)</b>	<b>4,238</b>	<b>2,610</b>	<b>3,801</b>	<b>3,938</b>
Capex	(1,246)	(1,012)	(1,000)	(1,030)	(1,061)
Disposals Of FAs/subsidiaries	1				
Acq. Of Subsidiaries/investments	12	(6,721)	200		
Other Investing Cashflow	35	21	29	17	47
<b>Cash Flow From Investing</b>	<b>(1,198)</b>	<b>(7,712)</b>	<b>(771)</b>	<b>(1,013)</b>	<b>(1,014)</b>
Debt Raised/(repaid)	(42)	3,964	(1,100)	(1,750)	(850)
Proceeds From Issue Of Shares	5	20			
Shares Repurchased					
Dividends Paid	(516)	(561)	(562)	(864)	(972)
Preferred Dividends					
Other Financing Cashflow	(61)	(162)	(338)	(210)	(94)
<b>Cash Flow From Financing</b>	<b>(615)</b>	<b>3,261</b>	<b>(2,000)</b>	<b>(2,825)</b>	<b>(1,916)</b>
Total Cash Generated	(2,200)	(212)	(160)	(36)	1,008
<b>Free Cashflow To Equity</b>	<b>(1,627)</b>	<b>490</b>	<b>740</b>	<b>1,038</b>	<b>2,074</b>
<b>Free Cashflow To Firm</b>	<b>(1,655)</b>	<b>(3,635)</b>	<b>1,501</b>	<b>2,578</b>	<b>2,830</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	613	670	310	273	1,281
Total Debtors	4,841	5,687	6,384	7,175	7,994
Inventories	8,596	7,674	9,044	9,716	10,825
Total Other Current Assets	1,152	1,021	1,330	1,495	1,665
<b>Total Current Assets</b>	<b>15,202</b>	<b>15,052</b>	<b>17,067</b>	<b>18,659</b>	<b>21,765</b>
Fixed Assets	3,813	8,851	9,086	9,184	9,235
Total Investments	337	352	522	522	522
Intangible Assets	37	2,528	2,528	2,528	2,528
Total Other Non-Current Assets	1,578	2,205	2,118	2,118	2,118
<b>Total Non-current Assets</b>	<b>5,765</b>	<b>13,936</b>	<b>14,253</b>	<b>14,352</b>	<b>14,403</b>
Short-term Debt	118	1,467	1,082	471	173
Current Portion of Long-Term Debt					
Total Creditors	4,880	4,885	6,384	7,175	7,994
Other Current Liabilities	1,166	1,815	1,596	1,794	1,998
<b>Total Current Liabilities</b>	<b>6,164</b>	<b>8,168</b>	<b>9,062</b>	<b>9,439</b>	<b>10,166</b>
Total Long-term Debt		2,729	2,014	875	323
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	678	1,065	1,065	1,065	1,065
<b>Total Non-current Liabilities</b>	<b>678</b>	<b>3,794</b>	<b>3,078</b>	<b>1,940</b>	<b>1,387</b>
Total Provisions		951	951	951	951
<b>Total Liabilities</b>	<b>6,842</b>	<b>12,912</b>	<b>13,091</b>	<b>12,330</b>	<b>12,504</b>
Shareholders Equity	14,070	16,076	18,230	20,681	23,664
Minority Interests	55				
<b>Total Equity</b>	<b>14,124</b>	<b>16,076</b>	<b>18,230</b>	<b>20,681</b>	<b>23,664</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	28.6%	17.9%	17.7%	12.4%	11.4%
Operating EBITDA Growth	8.4%	(5.4%)	41.1%	19.6%	14.2%
Operating EBITDA Margin	9.7%	7.8%	9.3%	9.9%	10.1%
Net Cash Per Share (Rs)	1.15	(8.14)	(6.44)	(2.47)	1.81
BVPS (Rs)	32.57	37.13	42.12	47.70	54.59
Gross Interest Cover	36.68	15.78	10.83	21.24	54.94
Effective Tax Rate	22.3%	26.1%	25.2%	24.3%	24.3%
Net Dividend Payout Ratio	19.1%	22.0%	15.5%	19.7%	18.6%
Accounts Receivables Days	45.50	46.57	45.38	45.35	45.54
Inventory Days	112.73	102.94	94.16	94.36	93.09
Accounts Payables Days	72.78	61.79	63.47	68.20	68.74
ROIC (%)	29.5%	18.3%	17.2%	19.9%	22.2%
ROCE (%)	22.3%	14.5%	17.0%	19.8%	21.7%
Return On Average Assets	14.8%	10.8%	13.1%	14.2%	15.2%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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