

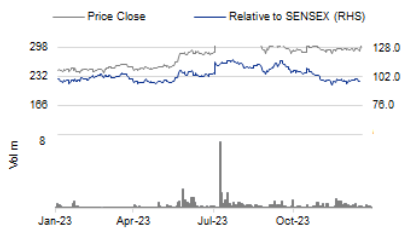
India

REDUCE (no change)

Consensus ratings*: Buy 15 Hold 5 Sell 4	
Current price:	Rs310
Target price: ▲	Rs294
Previous target:	Rs275
Up/downside:	-5.2%
InCred Research / Consensus:	-7.5%
Reuters:	VGUA.NS
Bloomberg:	VGRD IN
Market cap:	US\$1,621m Rs134,462m
Average daily turnover:	US\$1.5m Rs120.4m
Current shares o/s:	433.7m
Free float:	44.4%
*Source: Bloomberg	

Key changes in this note

- Revenue cut by 1-2% for FY24F-26F.
- EBITDA cut by 3-4% for FY24F-26F.
- PAT cut by 2-4% for FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.9	5.0	24.7
Relative (%)	6.8	(6.3)	5.3

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

Research Analyst(s)



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V-Guard Industries

Good performance, given weak sentiment

- 3Q sales growth in line with expectations while margins did well despite one-time expenses. Stabilizers/inverters/fans outpaced others. Sunflame: +2% yoy.
- Management retained its sales CAGR guidance of 12-15%. The growth hierarchy is ECD>Electricals>Electronics, with higher margins in FY25F-26F.
- We expect sales/EBITDA/PAT CAGR of 11%/17%/21% as margins rise (100bp) & debt is repaid over FY24F-26F. Risk-reward unfair. Retain REDUCE.

3QFY24 sales in line while margins are better than expectations

On a like-to-like (LTL) basis (excl. Sunflame), revenue/EBITDA/PAT of V-Guard industries (VGL) stood at Rs10.9bn/Rs935m/Rs519m, +11%/42%/32% yoy, respectively. Consol. revenue/EBITDA/PAT stood at Rs11.6bn/1bn/582m, +19%/54%/48% yoy, respectively. Sales were in line while EBITDA/PAT beat our/Bloomberg consensus estimates by 3-7% in 3QFY24. Voltage stabilizers, inverters and fan sales outpaced wires and water heater sales. Consol. gross/EBITDA margin stood at 33.9%/8.7%, +430bp/+200bp yoy. Other expenses included one-time provisions for a) Extended Producer Responsibility (EPR) liability of Rs45m, and b) inverter accelerated sales project investment of Rs45m. Staff costs saw a reversal of excess variable pay provisions made in 1HFY24. Electronics sales (+17% yoy) outpaced electricals (+8.5% yoy) and ECD (+11% yoy) in 3Q. ECD segment's EBIT margin recovered to 3%, +400bp yoy. Implied Sunflame revenue/EBITDA/PAT stood at Rs763m (+2% yoy)/Rs82m/Rs64m, respectively, with the EBITDA margin at 10.7%. Gross debt stood at Rs2.9bn (Dec 2023).

EBITDA margin to expand & a net cash balance sheet by Mar 2026F

Management retained its sales CAGR guidance of 12-15% over the next two-to-three years. The sales growth will be the highest for ECD (fans, water heaters) followed by electricals (wires, switchgear) and then the electronics segment (stabilizer and inverters). We expect a sales CAGR for the ECD segment at 13%, electricals at 11% and electronics at 9% over FY24F-26F. Nearly a year after Sunflame acquisition, the sales decline has now stopped and is likely to meaningfully bounce back (CAGR: +15% yoy) over FY24F-26F. We expect consol. sales/EBITDA CAGR of 11%/17%, respectively, and EBITDA margin expansion of 100bp over FY24F-26F. We expect FCF of Rs7.7bn and full debt repayment of Rs4bn over FY24F-26F.

Change in our earnings estimates

Based on 4QFY24F industry outlook, management's guidance and 9MFY24 actuals, we adjust revenue/EBITDA/PAT by 1-4% over FY24F-26F. We expect a capex of Rs2.7bn, net working capital cycle to be stable at 60-65 days and RoE of 17-18% over FY24F-26F. We find the risk-reward ratio unfavourable at current valuation. Retain REDUCE rating with a higher target price of Rs294 (Rs275 earlier) based on a higher exit P/E of 40x (removing 10% discount to the 10-year mean) FY25F EPS on the back of EPS growth recovery. Upside risk: Faster margin expansion.

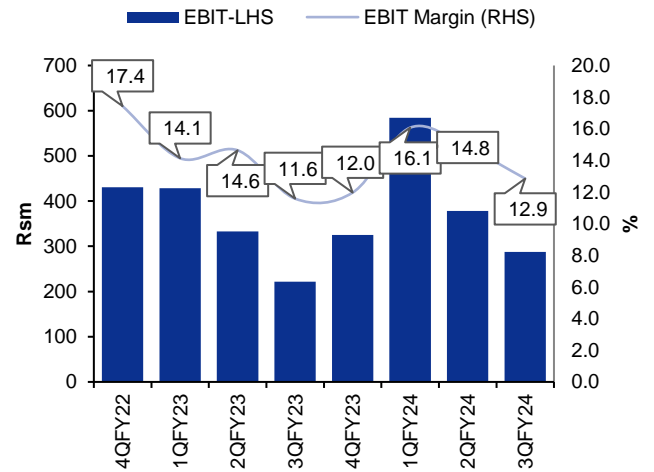
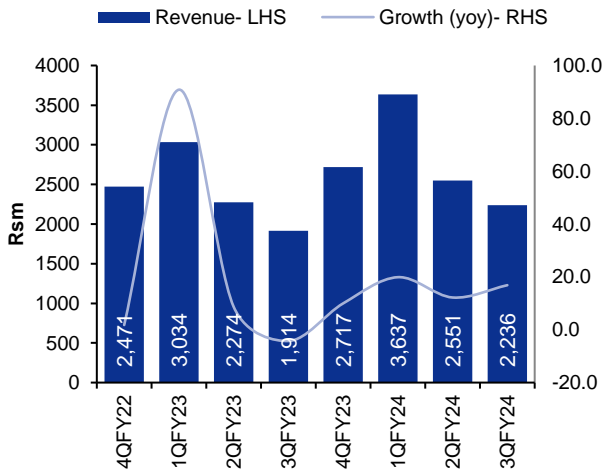
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	34,982	41,260	48,020	53,714	59,640
Operating EBITDA (Rsm)	3,382	3,199	4,370	5,210	5,994
Net Profit (Rsm)	2,257	1,890	2,623	3,192	3,873
Core EPS (Rs)	5.2	4.4	6.1	7.4	8.9
Core EPS Growth	12.2%	(16.4%)	38.8%	21.5%	21.3%
FD Core P/E (x)	59.35	71.04	51.18	42.12	34.72
DPS (Rs)	1.3	1.3	1.5	1.8	2.0
Dividend Yield	0.42%	0.42%	0.48%	0.56%	0.65%
EV/EBITDA (x)	39.47	43.07	31.35	26.00	22.24
P/FCFE (x)	(82.23)	273.46	182.10	107.87	69.22
Net Gearing	(3.5%)	21.9%	15.2%	5.0%	(5.0%)
P/BV (x)	9.52	8.35	7.44	6.56	5.72
ROE	17.2%	12.5%	15.4%	16.6%	17.6%
% Change In Core EPS Estimates			(3.43%)	(3.74%)	(2.13%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 earnings-call highlights

- **Regional sales mix:** Non-South India (ex-Sunflame) revenue stood at Rs5bn, +11% yoy, and accounted for 46% of total sales in 3QFY24. Sales growth was almost equal regionally for South India and non-South India markets.
- **Sunflame update:** A senior management team is fully in place at Sunflame with the appointment of the new CEO, CFO, head of supply chain and head of human resources. V-Guard's management indicated no major change in the revenue mix (cooktops, hoods and hobs account for 50% of sales) going ahead. The on-ground sales team has been established for the southern markets to diversify from North India revenue concentration. As sales get ramped up, management plans to reinvest operating leverage benefits into sales promotion and branding activities. Starting 4QFY24F, Sunflame is expected to grow revenue at a relatively faster rate and the EBITDA margin to stabilize in the 11-12% range over the next two-to-three years.
- **Framework for generation of EPR certificate related to E-waste recycling:** V-Guard provisioned an amount of Rs45m towards liability related to the new Extended Producer Responsibility (EPR) regulations. EPR focuses on the responsibility of the producer of goods for the impact of their product in the final stage of its life cycle, after consumption, and gives producers a greater motivation to design products that minimize environmental and health impact at the end of the life of the product. The Central Pollution Control Board of India (CPCB) has come out with draft regulations on EPR which include a list of 106 items that would have financial implications for consumer durable companies under our coverage. In our view, every company that manufactures the list of items mentioned in the draft regulations must ensure effective recycling of plastic and metal parts used for the product manufactured by them at the end of the product's life in the form of subscription to EPR certificates to be issued by recyclers, as authorized by the CPCB. This is applicable retrospectively for products manufactured and sold over the past 10 years and the liability for recycling would be applicable to these products reaching the end of their life cycle now.
- **Inverter accelerated sales project:** V-Guard is executing an internal project to accelerate inverter sales and improve margins in the electronics segment. The company expensed Rs45m for this project in 3QFY24. The project would continue for a period of 12-14 months and commensurate costs are expected to be volatile over this period. The total investment earmarked to this project is Rs100-120m, in our view.
- **House wires:** This is the largest product segment for the company, accounting for ~30% of the total sales. The capacity utilization is at ~70% today. Dealer (retail) sales account for 95% of the total sales and the demand has continued to remain weak for house wires over the past two-to-three quarters.
- **New plants and capex:** The new battery plant at Hyderabad and kitchen appliances plant at Vapi is expected to start commercial operations in 4QFY24F. The TPW fan plant would start operations in 1HFY25F. The company plans to spend Rs800-900m of capex annually over the next two-to-three years.
- **Cash flow and debt:** The net working capital cycle remains unchanged at 49 days qoq. The cash flow from operations stood at Rs4bn in 9MFY24. The net debt stood at Rs1.5bn at the end of Dec 2023.

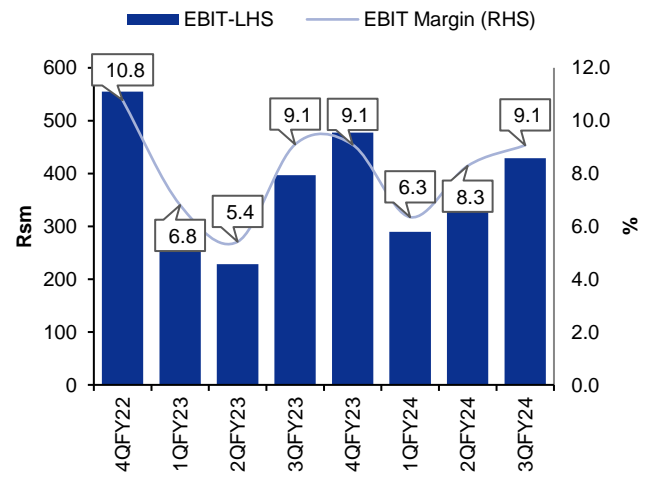
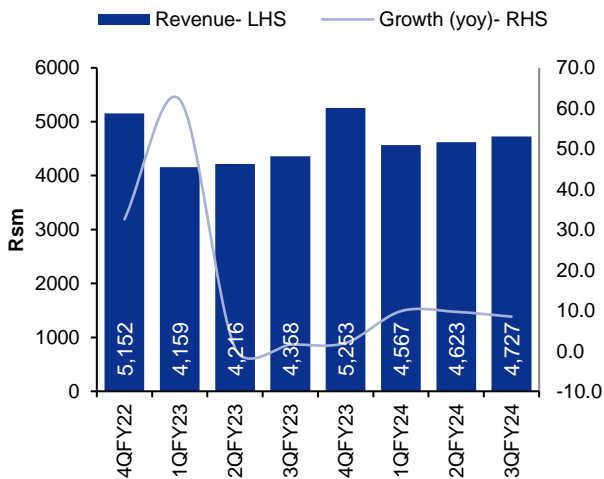
Figure 1: Electronics (voltage stabilizers, inverters, UPS, batteries)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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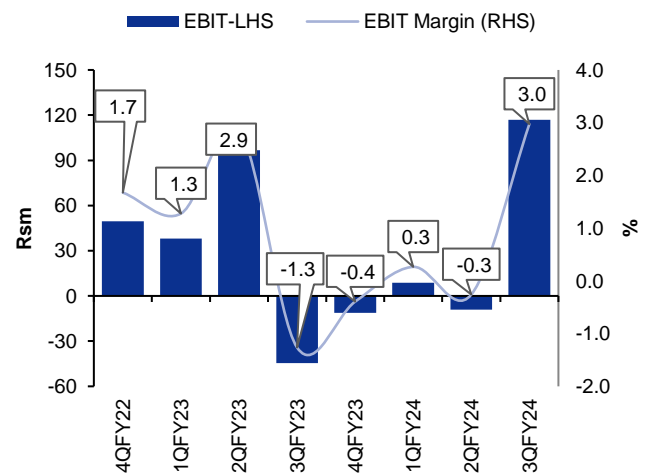
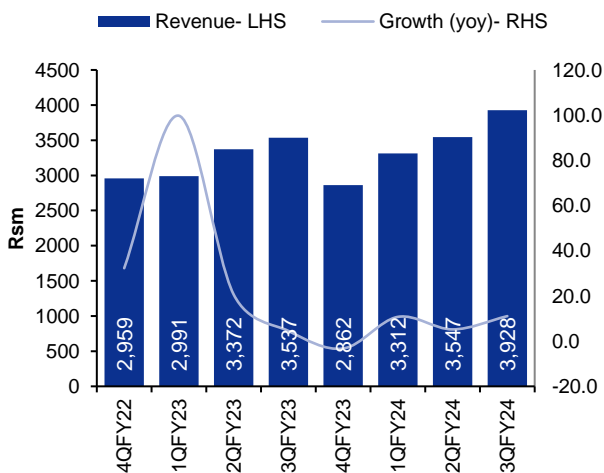
Figure 2: Electricals (wires, pumps, switchgear, switches)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 3QFY24 results snapshot (consolidated)

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue	11,654	9,808	18.8	11,338	2.8	35,139	29,853	17.7
EBITDA	1,016	659	54.3	925	9.9	2,989	2,206	35.5
EBITDA margin (%)	8.7	6.7	200 bp	8.2	56 bp	8.5	7.4	111 bp
Adj. PAT	582	393	48.2	590	(1.2)	1,814	1,364	33.0
Diluted EPS (Rs)	1.3	0.9		1.4		4.6	4.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 3QFY24 results snapshot (ex-Sunflame)

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)
Revenue	10,891	9,808	11.0	10,720	1.6
EBITDA	935	659	41.9	872	7.1
EBITDA margin (%)	8.6	6.7	186 bp	8.1	44 bp
Adj. PAT	519	393	32.1	563	(7.9)
Diluted EPS (Rs)	1.2	0.9		1.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 3QFY24 segmental results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue								
Electronics	2,236	1,914	16.9	2,551	(12.3)	8,424	7,221	16.7
Electricals	4,727	4,358	8.5	4,623	2.3	13,917	12,733	9.3
Consumer Durables	3,928	3,537	11.1	3,547	10.8	10,786	9,899	9.0
Sunflame	763	748	2.0	617	23.6	2,011	NA	NA
Total	11,654	9,808	18.8	11,338	2.8	33,128	29,853	11.0
EBIT								
Electronics	287	222	29.7	378	(24.0)	1,250	983	27.1
Electricals	429	397	8.1	383	11.9	1,102	908	21.3
Consumer Durables	117	-45	(361.4)	-9	NM	116	90	28.9
Sunflame	82	NA	NA	37	121.9	NA	NA	NA
Total	915	574	59.5	789	16.0	2,468	1,982	24.5
EBIT margin (%)								
Electronics	12.9	11.6	127 bp	14.8	-197 bp	14.8	13.6	122 bp
Electricals	9.1	9.1	-3 bp	8.3	78 bp	7.9	7.1	79 bp
Consumer Durables	3.0	-1.3	424 bp	-0.3	323 bp	1.1	0.9	17 bp
Sunflame	10.8	NA	NA	6.0	477 bp	NA	NA	NA
Total	7.9	5.8	200 bp	7.0	89 bp	7.5	6.6	81 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Sunflame's financials (Rs m)

Profit & Loss statement	4QFY23	1QFY24	2QFY24	3QFY24
Net Sales	569	632	617	763
Total income	569	632	617	763
Consumption of raw materials	351	408	400	483
Staff costs	28	36	45	31
Other expenditure	195	112	119	167
Total opex	574	556	565	681
EBITDA	-5	75	53	82
<i>EBITDA margin (%)</i>	<i>-1.0</i>	<i>11.9</i>	<i>8.5</i>	<i>10.7</i>
Depreciation	19	22	22	8
EBIT	-24	54	31	74
Financial costs	80	1	1	1
Other recurring income	-10	4	6	8
Extraordinary inc/(expenses)	100	0	0	0
PBT	-115	58	36	82
Tax - Current	-222	24	-17	42
Tax - Deferred	242	-10	27	-24
Reported PAT	-35	43	27	64
Adjusted PAT	-135	43	27	64
Cash profit	936	830	815	750
Gross margin (%)	38.4	35.3	35.1	36.7
PAT margin (%)	-6.1	6.8	4.3	8.3
Tax rate (%)	-17.2	25.2	27.2	22.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	3QFY24	3QFY24F	Var (%)
Revenue	11,654	11,676	(0.2)
EBITDA	1,016	957	6.1
EBITDA margin (%)	8.7	8.2	52 bp
Adj. PAT	582	534	9.1

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus

Rs m	3QFY24	3QFY24C	Var (%)
Revenue	11,654	11,339	2.8
EBITDA	1,016	949	7.1
EBITDA margin (%)	8.7	8.4	35 bp
Adj. PAT	582	563	3.5

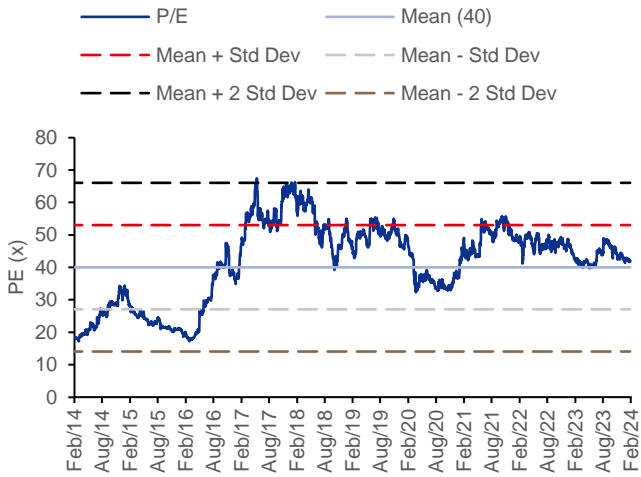
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	48,020	53,714	59,640	48,545	54,559	60,786	-1.1	-1.5	-1.9
EBITDA	4,370	5,210	5,994	4,515	5,401	6,170	-3.2	-3.5	-2.9
Adjusted consol. PAT	2,623	3,192	3,873	2,715	3,315	3,956	-3.4	-3.7	-2.1
EPS	6.1	7.4	8.9	6.3	7.6	9.1	-3.4	-3.7	-2.1
EBITDA margin (%)	9.1	9.7	10.1	9.3	9.9	10.2	-20 bp	-20 bp	-10 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



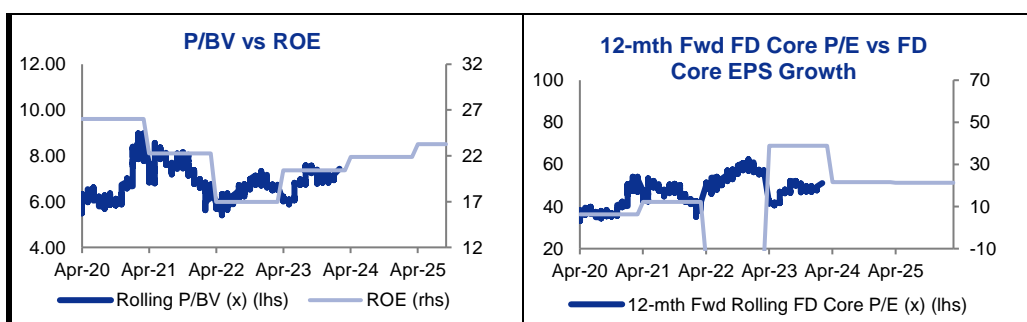
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band (one-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
Total Net Revenues	34,982	41,260	48,020	53,714	59,640
Gross Profit	10,843	12,416	15,991	18,155	20,307
Operating EBITDA	3,382	3,199	4,370	5,210	5,994
Depreciation And Amortisation	(491)	(644)	(800)	(867)	(934)
Operating EBIT	2,891	2,555	3,570	4,343	5,060
Financial Income/(Expense)	(48)	(88)	(380)	(249)	(79)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	77	90	295	120	132
Profit Before Tax (pre-EI)	2,920	2,557	3,485	4,214	5,113
Exceptional Items					
Pre-tax Profit	2,920	2,557	3,485	4,214	5,113
Taxation	(655)	(667)	(863)	(1,022)	(1,240)
Exceptional Income - post-tax					
Profit After Tax	2,264	1,891	2,623	3,192	3,873
Minority Interests	(7)	(1)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,257	1,890	2,623	3,192	3,873
Recurring Net Profit	2,257	1,890	2,623	3,192	3,873
Fully Diluted Recurring Net Profit	2,257	1,890	2,623	3,192	3,873

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	3,382	3,199	4,370	5,210	5,994
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,195)	1,414	(870)	(720)	(859)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	278	(24)	(255)	(129)	53
Net Interest (Paid)/Received	37	138	380	249	79
Tax Paid	(888)	(488)	(863)	(1,022)	(1,240)
Cashflow From Operations	(387)	4,238	2,763	3,589	4,026
Capex	(1,246)	(1,012)	(950)	(859)	(885)
Disposals Of FAs/subsidiaries	1				
Acq. Of Subsidiaries/Investments	12	(6,721)	200		
Other Investing Cashflow	35	21	25	16	51
Cash Flow From Investing	(1,198)	(7,712)	(725)	(843)	(834)
Debt Raised/(repaid)	(42)	3,964	(1,300)	(1,500)	(1,250)
Proceeds From Issue Of Shares	5	20	2		
Shares Repurchased					
Dividends Paid	(516)	(561)	(651)	(759)	(867)
Preferred Dividends					
Other Financing Cashflow	(61)	(162)	(405)	(265)	(130)
Cash Flow From Financing	(615)	3,261	(2,354)	(2,524)	(2,247)
Total Cash Generated	(2,200)	(212)	(316)	222	946
Free Cashflow To Equity	(1,627)	490	737	1,245	1,943
Free Cashflow To Firm	(1,655)	(3,635)	1,633	2,481	3,063

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	613	670	154	375	1,321
Total Debtors	4,841	5,687	6,578	7,358	8,170
Inventories	8,596	7,674	8,551	9,271	10,131
Total Other Current Assets	1,152	1,021	1,316	1,472	1,634
Total Current Assets	15,202	15,052	16,599	18,476	21,255
Fixed Assets	3,813	8,851	8,938	9,080	9,031
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	2,268	2,118	2,118
Total Non-current Assets	5,765	13,936	14,256	14,248	14,199
Short-term Debt	118	1,467	1,013	488	51
Current Portion of Long-Term Debt					
Total Creditors	4,880	4,885	5,920	6,622	7,353
Other Current Liabilities	1,166	1,815	1,973	2,207	2,451
Total Current Liabilities	6,164	8,168	8,906	9,318	9,855
Total Long-term Debt		2,729	1,884	908	95
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	678	1,065	1,065	1,065	1,065
Total Non-current Liabilities	678	3,794	2,948	1,973	1,160
Total Provisions		951	951	951	951
Total Liabilities	6,842	12,912	12,805	12,241	11,965
Shareholders Equity	14,070	16,076	18,050	20,483	23,489
Minority Interests	55				
Total Equity	14,124	16,076	18,050	20,483	23,489

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	28.6%	17.9%	16.4%	11.9%	11.0%
Operating EBITDA Growth	8.4%	(5.4%)	36.6%	19.2%	15.0%
Operating EBITDA Margin	9.7%	7.8%	9.1%	9.7%	10.1%
Net Cash Per Share (Rs)	1.15	(8.14)	(6.33)	(2.35)	2.71
BVPS (Rs)	32.57	37.13	41.69	47.23	54.16
Gross Interest Cover	36.68	15.78	8.82	16.41	39.04
Effective Tax Rate	22.4%	26.1%	24.8%	24.3%	24.3%
Net Dividend Payout Ratio	19.2%	22.0%	18.7%	18.0%	17.0%
Accounts Receivables Days	45.50	46.57	46.61	47.35	47.52
Inventory Days	112.73	102.94	92.45	91.47	90.02
Accounts Payables Days	72.78	61.79	61.57	64.37	64.84
ROIC (%)	29.5%	18.3%	16.8%	19.5%	22.0%
ROCE (%)	22.0%	14.8%	16.7%	19.5%	21.6%
Return On Average Assets	14.9%	10.6%	12.9%	14.0%	15.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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