

V-Guard Industries

Weak print continues

V-Guard continued to deliver a weak operating print with revenue (organic) up by 3% (HSIE 7%) and EBITDA contracting by 13% YoY (HSIE -9%), adjusting for Sunflame acquisition-related cost (INR 100mn). Electronics/Electrical revenue grew by 12/2%. ECD fell 3% YoY (impact of fan rating change); in comparison, Crompton/Havells/Orient reported +8/-14/-20%. South revenue fell by 3% while non-south grew 10% YoY. We believe V-Guard's aspiration of clocking 15% organic growth in FY24 looks stretched, given (1) weak consumer demand; (2) disrupted summer season sales; and (3) single-digit growth in the south market (55% of sales) as V-Guard is fully indexed there. The company is aggressively driving Sunflame sales in MT/E-com channels (under-indexed vs industry). Stability in RM prices and liquidation of high-cost inventory shall aid GM expansion. Still achieving a 10% EBITDA margin looks difficult due to high competition in non-south, slow south growth and continuous reinvestment. We cut EPS by 4/2% for FY24/FY25. We value the stock at 30x P/E on Mar-25E EPS to derive a TP of INR 235. Maintain REDUCE.

- **Electronics revenue surprises positively; Electricals/Consumer durables weak:** Standalone revenue grew by 3% YoY to INR 10.8bn (HSIE: INR 11.3bn). The electronic segment (stabilizer, UPS, etc.) surprised positively, growing by 12% YoY (HSIE: +5%). Electrical (wires, pump, etc.) grew by 2% YoY. CD segment (fan, water heater, KEA, cooler) fell 3% YoY, impacted by fan rating change-led volatility in the market and unseasonal rains. Stabilizers can see weakness in the near term due to the weak summer season. Sunflame revenue came in at INR 569mn (first quarter post-acquisition); we model INR 4bn revenue for FY24. We model a 10% organic revenue CAGR for FY23-25E.
- **Sequential improvement in margins:** Standalone GM was flat YoY (+60bps QoQ) at 28.8%, aided by moderating input cost and normalising of high-cost inventory. A&P expenses were stepped up to 1.6% in Q4FY23 (+40bps YoY). While employee cost increased 20% YoY, other expenses grew 63% YoY as they included INR 100mn Sunflame acquisition-related charges. EBITDAM contracted by 260bps YoY (+190bps QoQ) to 8% (HSIE: 8.9%). Adjusting for Sunflame-related expenses, EBITDAM stood at 8.9%. EBITDA fell 22% YoY to INR 865mn. EBIT margin for electronics, electrical and CD segments fell by 810/120/140bps YoY to 9.7/9.6/0.3%. Higher depreciation and interest cost led to a 38% fall in PBT to INR 622mn. We model a 9.6/9.7% EBITDA margin for FY24/FY25.
- **Con call and BS/CF takeaways:** (1) Demand trend remains weak due to high inflation. Expect it to pick up from Q2FY24. (2) Summer products saw good traction in March and April, especially in the south and east. North and west were impacted by unseasonal rains. (3) Primary sales of fans continued to remain impacted by the high channel inventory of non-rated fans. (4) To incur a capex of INR 1bn in FY24. (5) Sunflame to do revenue of INR 4-4.25bn with 12-13% EBITDAM in FY24. (6) In FY23, FCF stood at INR 3.2bn vs INR -1.6bn YoY.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	10,801	10,503	2.8	9,772	10.5	35,002	41,260	48,748	53,597
EBITDA	865	1,108	(22.0)	598	44.6	3,402	3,199	4,656	5,198
APAT	463	906	(48.9)	358	29.3	2,284	1,890	2,905	3,367
Diluted EPS (INR)	1.1	2.1	(48.9)	0.8	29.3	5.3	4.4	6.7	7.8
P/E (x)						47.4	57.4	37.3	32.2
EV / EBITDA (x)						31.6	34.9	24.0	21.2
RoCE (%)						18.6	10.6	13.4	14.3

Source: Company, HSIE Research

REDUCE

CMP (as on 31 May 23)	INR 251
Target Price	INR 235
NIFTY	18,534

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 235	INR 235
	FY24E	FY25E
EPS %	-4%	-2%

KEY STOCK DATA

Bloomberg code	VGRD IN
No. of Shares (mn)	432
MCap (INR bn) / (\$ mn)	108/1,327
6m avg traded value (INR mn)	49
52 Week high / low	INR 275/204

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.1	(0.7)	7.1
Relative (%)	(4.1)	0.0	(5.5)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	55.85	55.80
FIs & Local MFs	18.93	19.09
FPIs	12.91	12.84
Public & Others	12.31	12.27
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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