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FIRST LIGHT

01 June 2023

RESEARCH

INDIA STRATEGY | MONTHLY CHARTBOOK

Global headwinds the only major concern

BOB ECONOMICS RESEARCH | FISCAL UPDATE

Fiscal deficit at 6.4% in FY23

BOB ECONOMICS RESEARCH | GDP

GDP growth in FY23 - Positive surprise

V-GUARD INDUSTRIES | TARGET: Rs 270 | +8% | HOLD

Sunflame key for FY24

SUMMARY

India Strategy: Monthly Chartbook

- India's YTD underperformance against global markets appears to be reversing, with outperformance in May
- Global headwinds, including US rate uncertainty and structurally low growth in China, continue to pose near term-risks to the market
- Requisite building blocks are in place for a high growth trajectory for India and, hence, we retain our long-term bullish view

Click here **for the full report.**

India Economics: Fiscal Update

Centre's fiscal position in FY23 came in line with government's revised projections for FY23. Better than expected growth in nominal GDP (16.1% as per provisional estimate for FY23 versus 15.4% as per 1st AE for FY23), pick up in revenue collections, helped government achieve this target. Higher than previously estimated growth in both tax and non-tax revenues helped government boost its net tax revenues. This boost also helped major slippage in disinvestment receipts. Minor slippage in overall spending was covered by revenue growth and GDP boost. Slippage in spending could be attributed to higher outgo for fertilizer subsidies, which was offset by cut in spending by ministries like consumer affairs (food subsidy), agriculture, and health. We continue to expect fiscal deficit ratio of 5.9% for FY24, as downside risks to revenue growth persist (easing inflation and slowing economic conditions).

Click here **for the full report.**

Daily macro indicators

Ticker	29-May	30-May	Chg (%)
US 10Y yield (%)	3.80	3.69	(11bps)
India 10Y yield (%)	7.03	7.01	(2bps)
USD/INR	82.63	82.72	(0.1)
Brent Crude (US$/bbl)	77.1	73.5	(4.6)
Dow	33,093	33,043	(0.2)
Hang Seng	18,551	18,596	0.2
Sensex	62,846	62,969	0.2
India FII (US$ mn)	**26-May**	**29-May**	**Chg ($ mn)**
FII-D	49.6	(43.7)	(93.3)
FII-E	216.4	277.5	61.1

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

INDIA ECONOMICS: GDP

Indian economy rose by 7.2% in FY23 after expanding by 9.1% FY22. Higher than anticipated GDP was on the back of strong growth led by agriculture (4% against 3.5%) and trade, transport sector (14% from 13.8% in FY22). Amidst the risk of global slowdown, stubborn elevated global inflation print, rate-hike cycle, we expect India's economy to clock 6-6.5% growth in FY24 with possible recovery in capex cycle and resilience shown by strong domestic fundamentals. Adverse impact of El Nino, untimely departure of monsoon and spatial distribution of rainfall will pose significant downside risk to these projections. Moreover weaker exports due to global slowdown will add to the downside risks.

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V-GUARD INDUSTRIES

- Flat quarter despite growth in non-core markets; Q4 gross margin improved but EBITDA margin still under pressure
- Sunflame revenue at Rs 569mn in Q4; likely to be a key growth driver in FY24
- We raise FY24/FY25 EPS by 14%/15% to bake in Sunflame's contribution; on rollover, our TP rises to Rs 270 (vs. Rs 260) – maintain HOLD

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MONTHLY WRAP | Volume #12 | 31 May 2023

Global headwinds the only major concern

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- **Global headwinds, including US rate uncertainty and structurally low growth in China, continue to pose near term-risks to the market**
- **Requisite building blocks are in place for a high growth trajectory for India and, hence, we retain our long-term bullish view**

Kumar Manish | Vinod Chari
Yash Thakur
research@bobcaps.in

Indian market fairly valued: The Nifty50 remains a laggard among major global indices thus far in 2023 but has outperformed most markets in May. India's BEER remains elevated and is now moderately higher than its 5Y average while the Nifty50's 12M forward P/E multiple is close to its 5Y mean, indicating that the Indian market is fairly valued.

Sectoral performance: FMCG, auto and realty continued their good runs, with Nifty Auto the best performing sectoral index during May (up 7.7%) followed by Nifty Realty (7.6%) and Nifty FMCG (6.8%), against Nifty50 returns of 2.6%. Large-caps underperformed mid- and small-cap stocks.

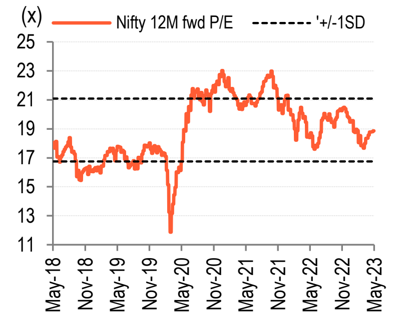
Q4FY23 commentary positive: Listed Indian companies have posted ~13% YoY growth at the revenue and 16% growth at the net income level so far in Q4FY23. Management commentary has been broadly positive, particularly from the bank, consumption and auto sectors.

Macro climate largely stable: India's 10Y bond yield declined ~11bps in May as inflation concerns abated, and consensus now expects a pause on rate hikes by the RBI over the near term. CPI moderated to an 18-month low of 4.7% in April while the WPI print was a sub-zero -0.92%.

Global outlook mixed: We believe US rate uncertainty will linger despite debt limit agreements as inflation remains sticky. We continue to expect secular low growth in China given structural issues within its real estate sector and a slowdown in its belt and road projects. A moderating Europe is another headwind for China's export-based GDP.

India outlook positive: As indicated in our previous notes, we remain neutral on the Nifty50 near term (CY23) due to global headwinds but believe the building blocks are in place for a sustained, high growth phase in the Indian economy. See our strategy note, **Clear mass premiumisation trends**, of 14 Mar 2023 for details. An inability to sign significant trade agreements with large consuming blocks/countries or sustained trade disputes will pose downside risks to the market, in our view.

Nifty valuation close to 5Y average



Source: Refinitiv, BOBCAPS Research

FISCAL UPDATE

31 May 2023

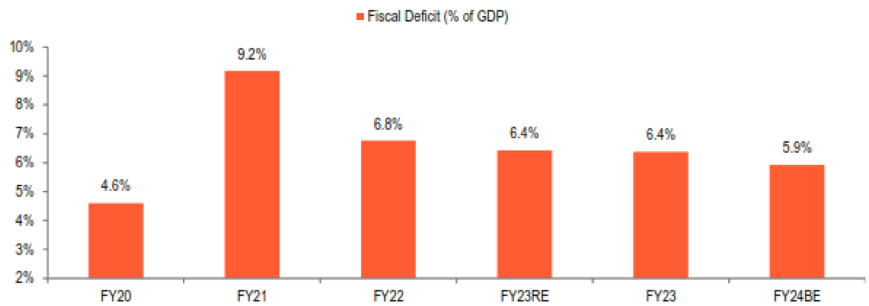
Fiscal deficit at 6.4% in FY23

Sonal Badhan
Economist

Centre's fiscal position in FY23 came in line with government's revised projections for FY23. Better than expected growth in nominal GDP (16.1% as per provisional estimate for FY23 versus 15.4% as per 1st AE for FY23), pick up in revenue collections, helped government achieve this target. Higher than previously estimated growth in both tax and non-tax revenues helped government boost its net tax revenues. This boost also helped major slippage in disinvestment receipts. Minor slippage in overall spending was covered by revenue growth and GDP boost. Slippage in spending could be attributed to higher outgo for fertilizer subsidies, which was offset by cut in spending by ministries like consumer affairs (food subsidy), agriculture, and health. We continue to expect fiscal deficit ratio of 5.9% for FY24, as downside risks to revenue growth persist (easing inflation and slowing economic conditions).

Fiscal Deficit meets the target FY23: Centre's fiscal deficit came in line with the revised estimates at 6.4% of GDP in FY23. In absolute terms, fiscal deficit was at Rs 17.33 lakh crore (99.6% of the target) compared with Rs 17.55 lakh crore. Apart from the support of nominal GDP (16.1% versus projected 15.4%), better than expected revenue collections also helped. Centre's total receipts rose by Rs 23,793 crore, while expenditure was broadly in line (excess Rs 1,605 crore spent), implying a total saving of Rs 22,188 crore (0.1% of GDP) in the fiscal deficit target.

Figure 1: Fiscal deficit meets target in FY23



Source: CEIC, Bank of Baroda Research

Higher than expected receipt growth: Centre's overall receipts rose to Rs 24.6 lakh crore in FY23 compared with government's revised estimates (RE) of Rs 24.3 lakh crore, recording a jump of 11.2% over FY22. Within this, revenue receipts for FY23 have come in at Rs 23.8 lakh crore, compared with RE of Rs 23.5 lakh crore, implying an excess of ~35,000 crore. Both tax and non-tax receipts posted better than projected growth. Net tax revenue receipts are up at Rs 21 lakh crore (9.8% YoY) versus RE of Rs 20.9 lakh crore (8.2%), while non-tax revenue settled at Rs 2.9lakh crore (-21.6%) versus RE of Rs 2.6 lakh crore (-28.3%).

GDP

31 May 2023

GDP growth in FY23: Positive surprise

Jahnavi Prabhakar
Economist

Indian economy rose by 7.2% in FY23 after expanding by 9.1% FY22. Higher than anticipated GDP was on the back of strong growth led by agriculture (4% against 3.5%) and trade, transport sector (14% from 13.8% in FY22). Amidst the risk of global slowdown, stubborn elevated global inflation print, rate-hike cycle, we expect India's economy to clock 6-6.5% growth in FY24 with possible recovery in capex cycle and resilience shown by strong domestic fundamentals. Adverse impact of El Nino, untimely departure of monsoon and spatial distribution of rainfall will pose significant downside risk to these projections. Moreover weaker exports due to global slowdown will add to the downside risks.

India's growth surprised positively as it rose by 6.1% in Q4FY23 compared with an increase of 4.5% in Q3FY23. The improvement was led by expansion across sectors such as agriculture clocking 5.5% growth (4.7% in Q3) despite unseasonal rainfall in Mar'23 which was expected to adversely affect the rabi Output. Mining and quarrying growth edged up by 4.3% (4.1% in Q3) and manufacturing sector growth improved by 4.5% after contracting by (-) 1.4% in Q3FY23. Moderation in commodity prices offered much respite to certain sectors in form of margins. Construction sector registered double digit growth of 10.4% against 8.3% in Q3. Even sectors such as financials services and public administration recorded a much higher growth of 7.1% and 3.1% respectively in Q4FY23. However, some moderation in services activity was noticed with growth decelerating to 6.9% compared with a growth of 8.2%. Growth in trade, transport and hotels eased down to 9.1% in Q4 from 9.6% in Q3FY22.

On expenditure side, in nominal terms private consumption spending was down to 7% from 8.1% in Q3. Government consumption spending on the other hand accelerated to 7.9% against a growth of 5.3% in Q3. Gross fixed capital formation slipped down marginally to 11.5% in Q4 (12% in Q3). Notably in real terms, both private consumption expenditure and government spending has expanded by 2.8% (2.2% in Q3) and 2.3% (-0.6% in Q3) respectively in Q4FY23. Even Gross capital formation has registered a robust growth of 8.9% in Q4 compared with a growth of 8% in Q3FY23.

Table 1: GDP clocks 4.4% growth in Q3FY23

Sectors (%)	Q4FY22	Q4FY23
Agriculture, forestry and fishing	4.7	5.5
Mining and quarrying	4.1	4.3
Manufacturing	(1.4)	4.5
Electricity, gas, water supply and other utility services	8.2	6.9
Construction	8.3	10.4
Trade, hotels, transport, communication & services related to broadcasting	9.6	9.1
Financial, real estate & professional services	5.7	7.1
Public administration and Defence	2.0	3.1
GVA at basic prices	4.7	6.5
GDP	4.5	6.1

Source: CEIC, Bank of Baroda Research

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HOLD
TP: Rs 270 | ⮝ 8%

V-GUARD INDUSTRIES | Consumer Durables | 31 May 2023

Sunflame key for FY24

- **Flat quarter despite growth in non-core markets; Q4 gross margin improved but EBITDA margin still under pressure**
- **Sunflame revenue at Rs 569mn in Q4; likely to be a key growth driver in FY24**
- **We raise FY24/FY25 EPS by 14%/15% to bake in Sunflame's contribution; on rollover, our TP rises to Rs 270 (vs. Rs 260) – maintain HOLD**

Vinod Chari | Nilesh Patil
Swati Jhunjhunwala
research@bobcaps.in

Flattish topline: VGRD's Q4FY23 topline at Rs 11.4bn includes Sunflame revenue of Rs 569mn, excluding which growth was flattish at 2% YoY. Non-south markets grew 10% YoY compared to a 3% decline in core southern markets. Management guides for 14-15% topline growth (ex-Sunflame) in FY24, with gross margin expansion to pre-Covid levels of 32-33%. It also expects Sunflame to grow to 12-13% on topline, with a sustainable EBITDA margin of 12-13% (vs. 15.8% in Q4FY23).

Durables business lags: The consumer durables vertical slipped 3% YoY amidst a tough demand environment. The electronics division grew 10% due to summer products while electricals was largely flat. Working capital days increased to 85 from 70 days in the preceding quarter due to higher inventory in electronics.

Gross margin improves but EBITDA margin still under pressure: Gross margin improved 170bps QoQ and 210bps YoY to 31.3% as benefits of stable commodity prices began to flow through and high-cost inventories normalised in the consumer durables segment. Management expects gross margin to improve further in Q1FY24. EBITDA margin contracted by 190bps YoY to 9.5% during the quarter (-110bps excluding one-time cost of Sunflame acquisition), largely due to higher A&P spends amounting to 1.6% of revenue (vs. 1.2% in Q4FY22).

Sunflame to be independent for now: VGRD has completed the acquisition of Sunflame in Q4 and expects to run it as a separate business given its differing cost structure and go-to-market strategy. This apart, VGRD has its own kitchen business and is planning capacity addition in mixers and gas stoves. Thus, to avoid dilution of the Sunflame business, the company plans to keep it separate.

Maintain HOLD: We raise FY24/FY25 EPS estimates by 14%/15% to bake in Q4 print & Sunflame's contribution. We value VGRD at 30x FY25E P/E, on slow market growth & rising competition in local market, 15% discount to 3Y average, & roll over to Mar'25E for revised TP of Rs 270 (vs. Rs 260). Though we believe long-term growth levers are intact given thrust on high-growth durables business & synergies from Sunflame, near-term outlook is weak by inflation & demand. Thus, retain HOLD.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	VGRD IN/Rs 251
Market cap	US$ 1.3bn
Free float	44%
3M ADV	US$ 0.3mn
52wk high/low	Rs 275/Rs 204
Promoter/FPI/DII	56%/13%/19%

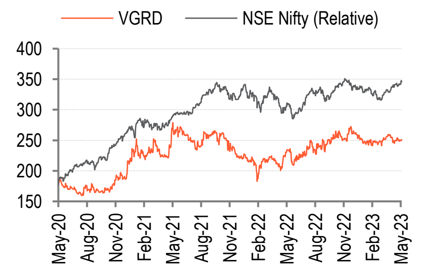
Source: NSE | Price as of 31 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	41,260	51,003	57,485
EBITDA (Rs mn)	3,199	5,491	6,124
Adj. net profit (Rs mn)	1,891	3,447	3,834
Adj. EPS (Rs)	4.4	8.0	8.9
Consensus EPS (Rs)	4.4	7.0	8.1
Adj. ROAE (%)	12.5	19.7	18.8
Adj. P/E (x)	57.4	31.5	28.3
EV/EBITDA (x)	33.9	19.8	17.7
Adj. EPS growth (%)	(16.9)	82.3	11.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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