



**“V-Guard Industries
3QFY2020 Earnings Conference Call”**

February 03, 2020



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Moderator: Ladies and gentlemen, good day and welcome to V-Guard 3QFY2020 earnings conference call, hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Kanodia from Ambit Capital. Thank you and over to you Sir!

Ashish Kanodia: Thank you. Hello everyone and welcome to 3QFY2020 Results Conference call of V-Guard Industries Limited. Today, we have from the management Mr. Mithun K Chittilappilly, Managing Director; Mr. Ramachandran, Director and Chief Operating Officer and Mr. Sudarshan Kasturi, Senior VP and Chief Financial Officer. Now I would like to hand over the call to the management for opening remarks post which we can open the floor for question and answer. Thank you and Over to you Sir!

Mithun Chittilappilly: Thank you Ashish and thank you Ambit for hosting this call. A very warm welcome to everyone present and thank you very much for joining us today to discuss the operating and financial performance of our company for the third quarter ended December 31, 2019.

During the third quarter, which included the annual festive season, consumer segment continued to be sluggish and demand outlook remained challenging across most of our product categories. Under the circumstances, products such as fans and water heaters delivered double digit growth while other products where the demand can be potentially subject to postpone delivered weaker growth. We continue to diversify the revenue profile by expanding contribution from a wider range of products as well as growing in non-south market by leveraging existing investment in brand marketing and distribution.

We have also been moving towards premiumization of the portfolio and are seeing the benefit from this exercise starting to accrue in our brand positioning and improving our margins profile. Overall our strategy has been to consolidate presence in the established market, expand market share and new market while at the same time increasing our engagement with modern retail and e-commerce channels in specific product categories. While the distribution channels currently make a small contribution to revenues at present we believe there is potential to expand further over time. We maintained strict organization discipline across functions including control over working capital in tight liquidity conditions and containing operation cost inflation. This has showed revenue growth of 5.4% in Q3 delivered year-on-year EBITDA margin expansion of 190 basis points to 9.5% while profit after tax increased by 27% to Rs.42.9 Crores. We continue to see margin expansion across all our key product categories, which will be the function of volume, growth premiumization and cost effectiveness.

During the quarter, net cash position improved to further to Rs.323 Crores despite the annual dividend payout based on higher operating margins and stable cash conversion metrics. As a



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result depending operations continued to deliver superior returns to stakeholders. ROE and ROC where at 21.0% and 25.5% respectively at the end of Q3 FY2020 calculated on trailing 12 months basis.

Going forward in the near-term we expect to see gradual pickup in demand growth. However, over the long-term we are confident of achieving topline growth trajectory of 15% driven by expansion into non-south market and introduction of new product categories. We have undertaken several business strengthening initiatives and will continue to add 3000-5000 retailers across the country every year with higher addition in the non-south region. We have put in place the best in class processes and system to create the bandwidth for the company to transition to a leading nation wise brand with high quality products in the consumer electrical, electronics and consumer durable space that have a strong salient in the minds of consumers. Overall we see V-guard brand being well positioned to benefit from a turnaround in the macroeconomic sentiment in the country.

On that note, I would like to thank you once again for your participation and would like to hand over the floor to the moderator for question and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Hi good afternoon Mithun. My first question is on the demand environment, just wanted to understand from you is it getting better or it is getting worse and within the last quarter how did you see where the exit run rates better than what we saw maybe in October? A related question are you also seeing dealers in the channel reducing their inventory levels and has that situation stabilized?

Mithun Chittilappilly: So I think the environment continues to be challenging having said that may be December and January we have seen a little bit better uptake in numbers than the earlier months. I think we will have to wait and see because I think one or two months is not enough for us to read how the environment is going to behave, we will have to wait for a few more months to see whether consistent growth will happen. Yes retailers are not willing to take any risk so they are also ensuring that they are working with minimal inventory. They are also become risk covers and they are also not having access to capital in terms of loans etc., so they are constrained in that sense of working capital and that is not a new issue, but it is continuing and there is no change in that sentiment as of now.

Aditya Bhartia: In this kind of scenario Mithun how is our channel financial schemes working, are you seeing banks curtailing their excitement towards channel financing?

Mithun Chittilappilly: No the channel financing, the banks are ready to give because from the basis of the companies assurance, but channel financing cannot be the only means of finance and channel financing



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could be catered to may be 30% or 40% that forms capital requirement, rest has to be raised by the deform itself so what we are saying is many banks are not willing to increase limit to customers and thereby they are getting affected. So channel financing we are not seeing much change, banks are still ready to give and all that, but other source of finance is of course impacted and many of them are also having other businesses like some of them are into many of the trade partners are into real estate and all of that so they also have money stock up in various things like that.

Aditya Bhartia: Understood and lastly Mithun how has been the competitive intensity in last few months and have you seen your peers resorting to price cuts or high dealer incentives in order to boost their growth?

Mithun Chittilappilly: Yes so definitely we are going through a hyper competitive environment. We have seen several brands slashing prices so that they can boost their volume growth and that is continuing. We have seen that significantly in the water heating category. We are seeing that in the fan category as well and we are also seeing it in the switchgear category so these three categories we are seeing price cut and hyper competition across.

Aditya Bhartia: Despite that in fans and water heaters category we managed to deliver double growth revenue growth?

Mithun Chittilappilly: Yes so I think in the case of water heaters we have some new launches, we also have made some softening of raw material prices, which helped us to pass on some of these benefits to their trade partners, which helps to drive volumes. The winter season was pretty good so I think all these factors helped us to active the water heater numbers. In other cases also I mean like what is happening is from five to six brand in a category today we are having 15 to 25 brands in each category so there is really no shelf space to for all of them to exist in the market so many are getting desperate and cutting price. The top two or three brands in a category may not do that but the rest of them will do so it is something like we have to live it, but we have actually would have forgone some sales because we have not participated or responded to some of these things. Definitely we have lost sales in water heaters in the first six months of the year, we have definitely lost sales in the switchgear category because we have not resorted to this kind of aggressive price cuts, even in fans we have not resorted to any cuts so I think you will see that even with only 5% volume growth, our margins both gross and EBITDA margins have actually improved that is because we have not responded too aggressively to some of these actions.

Aditya Bhartia: Understood that is helpful. Thanks Mithun.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram MF. Please go ahead.



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- Prashant Kutty:** Just on this gross margin part while you said obviously the stabilizers part of the business usually helps in improving your gross margin profile, that has not really grown that much, going into the season are we probably hopeful of relative improvement in gross margins from here?
- Mithun Chittilappilly:** So gross margins has gone up not only in the stabilizer in a category, gross margins increase has been across. So only in the month of December I would say towards the sag end of December we started to see some increase in raw material prices, but now after the recent gloom in the market even raw materials have started to correct again so I think definitely this kind of gross margins should be maintainable for us going forward because the increase in gross margins is not only in stabilizer, but across all categories.
- Prashant Kutty:** Just an extension to this so when you are saying that in a quarter when stabilizers does not do well we almost report 33% gross margins and I understand the materials have been benign but on a full year basis is 32% to 33% kind of sustainable number incrementally?
- Ramachandran V:** The quarter mix can be different quarter to quarter so it is not absolute, but improvement over the last year will sustain.
- Prashant Kutty:** Okay is it also to do the fact that non-south the gap is completely reduce now I mean is any of that factor also playing?
- Mithun Chittilappilly:** That does not change much in the last one year.
- Ramachandran V:** Two have been fairly close.
- Mithun Chittilappilly:** I think there are few things one is the product mix itself is changing so we have launched categories in the last four years, which are having significantly higher gross margins than the company average or having gross margins higher than the traditional categories barring may be stabilizer. So I think definitely as those categories become larger you will see that effect playing out in the product mix so that is one reason. Second is some reduction in the RM prices have happened. This is the other reason.
- Prashant Kutty:** Okay sure. The second question is you just spoke about hyper competitive environment and you said there is a lot of undercut which is happening in the trade, is it suffice to say we would have lost market share in the categories which you are highlighting despite seen good growth?
- Mithun Chittilappilly:** See if you look at water heaters definitely in the first six months we would have lost some share I think that we have come back strongly in the third quarter helped by some new launches and some response to the price cuts also we have done, but not to the kind of extend. For example something like water heaters I do not want to name any brand, but there is a well known brand which has cut prices by 10% to 15% so there is like almost 20% price difference between us and some brand so I think those kind of discounts are unsustainable for anyone so we have resisted. So some trade partners who are opportunistic and wants to make a quick buck have all jumped



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and moved to these kind of brands so this has been going on, it is not new thing, but it has aggravated more in the third quarter.

Prashant Kutty: Is it because of the fact that it seems there are a lot of players who are coming up in all of these category, the raw material cycle is benign and pretty much everything has been passed on to the consumer, is it becoming the new trend right now because even hearing it for a while now?

Mithun Chittilappilly: No I think it has nothing to do with raw material prices. I think fundamentally companies have made a call to broaden and expand their portfolio, the shelf space is limited and in a fight to acquire shelf space sometimes it get bloody, particularly when you are looking in categories which are seasonal because otherwise then you have to carry their inventory longer but in this incidence for example the kind of price cuts we have seen in the fan or water heater has even been before the season has begin. So I think some brands are feeling the pressure and the need to build some threshold size I think it is not sustainable and I think that may be it will be difficult to stay there and that is where our loss was in the first-half, but of course we are quite capable to protect our turf and even respond to do that if it is necessary, but that means then all of us lose money in the market.

Ramachandran V: There is one more thing so what happens is most companies have dominant category so the dominant category because of the benign raw material prices may be supporting the kind of aggressive price cuts which are taken so if I am having 90% of my business coming from a dominant category, my 20% price cut on the balance 10% of the business may not affect too much on the overall numbers so that also is masking some of these things.

Prashant Kutty: Lastly any one off in employee cost?

Mithun Chittilappilly: We do not have any one off this quarter only last quarter in Q3 we had a one-off?

Prashant Kutty: Okay this is a more sustainable employee cost number?

Mithun Chittilappilly: Yes.

Prashant Kutty: Thank you very much and all the very best.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: My first question is just to understand a bit more in terms of the growth outlook and the weakness that we are seeing, it has been a couple of quarters that we have been in the low single digit range and your commentary on demand off take also is not as encouraging so do we see growth coming back not just because of structural pickup in demand offtake from consumers but also we have now two quarters where seasonal products will probably kick in and there the demand elasticity is slightly different than compared to the typical demand, which we have from housing and building material segment so what would be your view in terms of growth as we



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look in terms of the next six to 12 months? Should growth rate improve optically from the lows that we have seen in the second and third quarter?

Mithun Chittilappilly: I think yes Q4 should be better, Q4 and Q1 are typically stronger quarters for us so if we do not have any untoward weather related issues we have a reasonably warm summer I think Q4 and Q1 should do well. Yes the building material segment especially wires and cables which is the bigger product category in that bucket, there the demand is not weather related, but more of structural so there we are continuing to see pressure because lack of demand for construction related products.

Renu Baid: So should one expect the growth could be entering back to double digits because of the seasonal products or it will still hover the way it has been now?

Mithun Chittilappilly: I think it is very difficult for us to make the comment on forward-looking statement but I think if January is an indication, things are looking better and the contribution of seasonal product especially the summer categories are higher in Q4 and last year Q4 and this year Q1 has been quite strong. We are hoping to repeat that kind of a performance.

Renu Baid: Sure which is interesting second point is as and we saw as an in the budget import duty across consumer durable segment especially appliances have been increased from 10% to 20% level so if you can help us elaborate what is the kind of import content that we have within the durables business portfolio and do you think in the current combative environment where pricing has been pretty tight this could further put pressures on gross margins or market share?

Mithun Chittilappilly: See if you look at the entire company, the total import component especially in the categories you have mentioned is about 8% so around 8% is the import component in that....

Renu Baid: Appliance segment which....

Mithun Chittilappilly: In the consumer durable segment. 8% of the total company and out of....

Renu Baid: For the related segment how large would it be?

Mithun Chittilappilly: So on durables it will be higher, definitely it will be something like 25% to 30% so for example 30% of fans, 25% of water heaters and may be 25% to 30% of kitchen appliances, they are all imported.

Renu Baid: So do you think this will allow us to do more of local sourcing or overall market will see the pricing levels itself getting adjusted to the new...

Mithun Chittilappilly: So in some category like water heaters we have already taken a call to replace imports with local sourcing so as we speak we are in the process of transitioning a lot of the imported models to India made models and by the next financial year the transition will be completed, but there are certain categories where we do not have scale in the country so for example pedestal fan and in



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some case we have to again reevaluate in the current like. It was not making sense earlier but if it makes sense so we will have to do evaluation and depending on our volumes, our sight of the business, or ability to have the right ecosystem in the country because there is no point in simply importing spare parts and just assembling them in India, it will not make any sense so if the ecosystem is there in the country yes and with the current taxation structure if it is making sense definitely so in the case of water heaters definitely we have taken the call last year and even without the tax we were planning to move it into the country. Our kitchen appliances partly made in India, partly imported again now we will reevaluate so I think each of the categories we will reevaluate depending upon the availability of the right supply source, availability of components, we will evaluate whether it is making sense to make in the country. In some cases it will and in some cases it may not, I guess in the smaller category it probably will not because we will be subscale.

Renu Baid: Correct so that extends the import will be there, and overall on the margin side if we going forward volumes are to be at the level which we are anticipating? What could be levers to improve margins probably gross margins sustained improvement might not be feasible given the market is competitive and one might have to pass it on to the market so you think margins that we are looking the current levels are broadly where this should be sustainable or there could be leveraged because of the improving product mix or other elements as well?

Ramachandran K: I think there are two parts to this that is gross margin and there is EBITDA I think gross margin whatever levels we have reached we can maintain, we have internal long-term program to improve our gross margins and as we have been doing over the last I think five years we have improved gross margin by 5% or 6% points and similarly we will continue working on it as Mithun was saying on the basis of our changing product mix and also initiatives on the cost improvement side mainly through procurement moving to manufacturing and all those things so I think the gross margin improvement is a long-term journey will continue may be one or the other year like last year we were stressed and our gross margin was flat with the commodity and currency impact travel to market more slowly so that there is something which is function of market dynamics but I think broadly I do not think there is concern on the gross margins side. EBITDA side yes since the topline is uncertain so of course there can be some fluctuation in EBITDA, but my sense is I think last year has also been that is the year that we are running also be challenging for us and others in the market so I would assume that companies will tend towards passing on the challenge arising from lower growth by trying to correct the fixed cost through pricing so maybe I think the probability there will be a drag may be not as strong as it would have been for the current year actually.

Renu Baid: So this is interesting thank you so much.

Moderator: Thank you. The next question is from the line Sonali Salgaonkar from Jefferies. Please go ahead.



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- Sonali Salgaonkar:** Sir my first question is in view of the situation in China right now do you foresee any impact on the supply chain of procurement from the industry prospective or be it your end-users?
- Mithun Chittilappilly:** So I think fundamentally there are some full value items which are finished good, which we source from China, there I think as far as we are concerned, we are kind of almost protected till March, as you are already aware China manufacturing has been closed for festive period and that closure has been prolonged for another 15 days now. I think certainly in summer categories I think there is likelihood that there will be pressure if the system does not open on 15, you can expect that would be some pressure and there would definitely be pressure in my view because it is unlikely that people are carrying inventories for April and beyond and probably even some of the inventories are on sea and since the documents are negotiated through banks it is even possible sometimes that clearing this may be an issue. So I think we will get a better picture in another 15 days on this aspect. Component again there are a lot of electronic components which are imported from China, there are some chemicals also which are imported from China, I think where they have global scale, I think these can get disrupted. Right now most companies or at least we are covered as I said till March there may be some component inventories with distributors of Chinese companies or global companies in India should allow us to cover till about April, but definitely if things do not get better by 15th February I think some disruption will come.
- Sonali Salgaonkar:** Sir in which particular summer categories are we mentioning here right now?
- Mithun Chittilappilly:** See we will get full value items, table, wall and pedestal fans mostly are imported into the country, if you look at kitchen appliances like induction, cooktops, rice cookers, if you look at for the glass cooktops they are all coming from China and in the case of components, primary electronic components like Ram mentioned and may be something like chemicals, plastics etc. are also coming from China, electronics I think mostly without China, the entire world will have issues because many key components are only made there today.
- Sonali Salgaonkar:** Got it Sir, my second question is would you be able to give us some approximate absolute market share in the key appliance segments that we are in?
- Mithun Chittilappilly:** We will try to do it off-line we do not have it right now with us.
- Sonali Salgaonkar:** Sir my last question is how should we look at the steady state ad spend to net sales because in this quarter we are at 5%, should we expect the year to close at somewhere between 4.5% to 5% or lower than that.
- Mithun Chittilappilly:** We will be above 5.
- Sonali Salgaonkar:** Alright. That is it from my side.



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- Moderator:** Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.
- Nitin Arora:** Mithun just one clarification when you said that January is seeing some signs of growth, is it something going faster than this quarter's growth or is it some indications you are getting, I just got confused you said higher growth I thought from this quarter average you are seeing some growth and if you are seeing that eventually this would be higher than this quarter growth or how should we take it?
- Mithun Chittilappilly:** So I think we cannot talk about January right now because we are yet to complete the quarter but what I can say is that yes both December and January has been more positive as compared to October and November. The specific previous question was are things getting better so our answer to that was probably we felt most challenge in October and November in fact I think it was September, October and November, these three months were the most challenging months. In relation to that, December was a bit better and January was similar so that is the limited observation it is very difficult to predict.
- Nitin Arora:** I just want a clarification if I heard it correctly or not, got the answers. Second question is with respect to as you know Kerala is the only state where three or four cases have been reported of this corona virus issue, any panic there in terms of end market slowing down?
- Mithun Chittilappilly:** I think this is still very early days we have to look at the contacts setting close to 17000 people globally has been affected and 3 are in India and all the three cases have been so far identified in Kerala I think more cases will come out in the other parts of the country but the good news is what I come to know that all the three are coming from the same University or something in China so they were all infected probably from the same source so that is the only information we have right now. As of there is no panic but we will wait and see at least good news is they are at least catching this and isolating these people so there is probably chances of it further spreading may be less. As of today there is no panic or anything but may be also very early because the last two to three days this news has been coming up.
- Ramachandran K:** One more point so Kerala had this Nipah virus issues also earlier right so they have some experience in dealing with these kind of things and what I understand and what we read from papers they are observing all affected parties and they are quarantined and they are observing them and probably the feedback is travelling much faster because the mechanism of monitoring is also there so we will know in sometime.
- Nitin Arora:** Got it Thank you.
- Moderator:** Thank you. The next question is from the line of Hitesh Dave from ICICI Direct. Please go ahead.



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- Hitesh Dave:** Thank you for the opportunity. Sir in your opening remarks you said like the product contribution from the premium products has been increasing and that is one of the reasons to gain the gross margins, just wanted to know if you can share how much is the total premium product revenue of the total revenue, if you could share that data?
- Mithun Chittilappilly:** We are not giving category level details.
- Hitesh Dave:** Not the category level, but overall if you could know how much we have?
- Ramachandran K:** We do not have a internal segmentation of premium, medium and popular, I think the general point that Mithun was making is that you know the categories that we are entering or we have entered in the last three to four years are having higher gross margins compared to company average and this is one of the factors which is also helping to pull the gross margin up, as said sales are growing obviously any categories we get into, earlier the contribution was zero and it is progressively growing and it is having a positive impact on the mix. The other thing is right as the building segment growth is slow category like wires would grow slower which has a lower margin and the other categories appliances which have anyway higher growth margin compared to cable will also grow so I think it is more at the rational response.
- Hitesh Dave:** Okay and my second question is pertaining to stabilizer segment, now the stabilizer segment have remained almost flattish for the nine month FY2020, we have witnessed in the air conditioning industry in the nine month they had grown by double digit obviously on a low base so I just wanted to know whether this stabilizer business is not growing because of our LED TV segment or is it there in the AC business also, the decline is or say lower growth in the AC stabilizer also.
- Sudarshan Kasturi:** Actually nine months of this year stabilizer has grown 12% which is line with the AC growth. In Q3 which was like 3% but that is a small relatively small season for stabilizer. In the first half the growth was much higher so YTD is like 12%.
- Mithun Chittilappilly:** Within stabilizer the AC segment is growing well. This year the television segment has impacted all television brands as well. The LED TV segment is one that has not grown, YTD expresses had a 12% plus revenue growth for stabilizer
- Hitesh Dave:** And then my last question is pertaining to your capex plan for the coming year, if you could share?
- Sudarshan Kasturi:** We expect capex to be around Rs.70 Crores levels.
- Hitesh Dave:** This is for FY2021 you are talking?
- Sudarshan Kasturi:** 2021 yes.



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- Hitesh Dave:** Okay that is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.
- Naveen Trivedi:** Hi good afternoon everyone. Sir in the non-south market if I look nine month performance, it delivers around 4% growth, could you please share which southern markets you are seeing stress during the nine month and in your double digit how much do you expect from the southern market?
- Mithun Chittilappilly:** Yes, non-south first nine months has been about 10% growth and South has been about 4%. Sorry what was the question again?
- Naveen Trivedi:** Sir my question is which all part of the Southern market you have seen stress and when we say medium term guidance for double digit growth how much growth we have billed for South market.
- Mithun Chittilappilly:** Okay I think traditionally the South was growing at about 7-8% and non-south was growing at about 22 odd percent and that is all the average 15% growth was coming in so we are expecting it to go to that kind of a range which is the range which we were having before the slow down started. If you look at South, all of them are impacted and there is no one that is impacted more but I think Kerala is of course one that is impacted for us we also have some impact in the Andhra region again where there is a lot of issues with new government coming and lot of new changes in policy which has negatively impacted the construction industry in Andhra and also in Andhra again there is a sand mining ban or something like that so again construction is not going on so between South more impacted is, the non-Hyderabad area that Andhra area and Kerala both are impacted.
- Naveen Trivedi:** If I look at your strategy on the consumer business which started like two year back and if I look at your trend during the night month time which has moderated a lot during this time, so how should we see the strategy going ahead with respect to because your focus was more towards the traction from the consumer business?
- Mithun Chittilappilly:** I think our ad spends are if you look at the average ad spend it is to the level as we always used to do I think if you compare with last year first quarter we still had some spill over of the brand launch campaign so Q1 of last year we had a very high base that is why if you look at YTD it is looking a bit low, but we will see the Q2 and Q3, our ad spends have been going up and that will continue to do so.
- Naveen Trivedi:** Lastly on the water heater side, your business has done well this season despite winter was delayed so how was the market growth, is it largely because of the market share gain or the market also supported you.



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Mithun Chittilappilly: Two things right? One is the BIS standards coming in for gas geysers and we had some significant loss of business before we could source locally from a vendor who had these certification I think in the market place certainly business has continued to transact and there have been supplies but at our end we have restricted supplies ahead of the standards coming in and so there was some sale loss for us. I think on the water heater business 3-4% the overall business would have been the loss because of our inability to feed the gas geyser in the market, which is basically happened in Q2 and early part of Q3. So I would say may be almost close to 4% was the kind of growth impact because of water heater, this is one part. Second part is there has been significant competition which has been coming in because of more and more players getting into water heater category and this has been a phenomena which has been happening since last year, but I think this year, the growth in the category has been slower and that has also meant that pressure on pricing has been more, we had taken up our prices towards the end of last season and the impact of that had come into the market but I think many others had not corrected the price in the face of expanded competitive environment and subsequently we saw one of the major players towards October correcting price aggressively across water heater, fan and pump in South particularly, so impact has come from there also though I think that towards the later half of the quarter we have protected our interest. So I think there is some slow down in water heater category but I would say not all the challenges are explained only because of slow down I think also the shift from traditional trade to modern trade and e-com that has also happened in the water heater category and some players may be over indexed and some players may be under indexed to these channels and that is also partly explaining the slower growth.

Naveen Trivedi: Thank you so much Sir and all the best to you.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thank you for the opportunity Sir. First with respect to solar power pumps the budget talked about further in terms of the solar power pumps, so a) if you could help us understand how significant this opportunity was for the industry as well as for us and b) do you see any significant change or growth coming in from solar power pumps?

Mithun Chittilappilly: The solar pump initiative will more support the agri pump segment of the market where we are less focused, our focus is more in the domestic segment where we are more focusing on pumps, which are going to the domestic segment.

Achal Lohade: Right, how much would be the contribution of agri pumps in our overall pumps?

Mithun Chittilappilly: It is negligible, 10% to 12%.

Achal Lohade: Second with respect to the margin differentiation between south and non-south could you possibly elaborate a bit with respect to how much is the difference now and how do you see it



over the next let us say couple of years would that help in, in terms of EBITDA margin improvement as well?

Mithun Chittilappilly: There is not much difference left between south and non-south margins, they are sort of nearly converged. What happens is there is always some difference because we sell different mix of products in these regions, so that is going to remain as such, but otherwise there is not much of a difference in terms of pricing.

Achal Lohade: Even at EBITDA level Sir?

Sudarshan Kasturi: I think EBITDA is a function of growth I think as the non-south this is a function of growth and scale, so if you are able to grow faster in non-south than south then definitely the EBITDA should converge. I think right now our EBITDA margins are comparable and decent in east. In the coming two to three years we believe that it can get better and closer as far as north is concerned and rest we will take a bit more time because the competitive environment is different in each of these three regions.

Achal Lohade: How many products, which are currently being distributed only in south you think you would be able to introduce in the current year rather FY2021 and how much is the contribution as of now in terms of the south revenue for these products?

Sudarshan Kasturi: The main products that we have not introduced in non-south in a very large way is the kitchen appliances, which we are now ruling it out. Switches and switch gear is the other one. So both these products gradually we are ruling them out. I think switches and switch gear we are in the process of launching them in east and north. Kitchen appliances we are again launching in the market of east. So potentially last year we did about 70 Crores of switches and switch gear business primarily from south and about 100 Crores of kitchen again only from south. So we believe that at least double of this can be achieved from all the other zones put together.

Achal Lohade: Great. Just a clarification with respect to for the quarter particularly with respect to water heater you mentioned that actually a large competitor did resort to aggressive pricing, you also responded and what is the volume growth let us say for the third quarter as well as nine months in case of water heater specifically?

Sudarshan Kasturi: I think towards the later part of the season we have responded to some of these pricing actions, but obviously not to the extent because the price differential is 15% to 20%, which is too large to bridge and we are not interested in losing our margins so we have not responded to each of those actions, but some of those actions in some market with some consumers large key accounts we have responded that is one. In terms of volume growth for water heaters there is a price lot of 2% built-in into the value. Volume will be about 9.

Achal Lohade: That is for the nine months right?



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- Sudarshan Kasturi:** No I am talking about the quarter.
- Mithun Chittilappilly:** Nine months will be lower.
- Sudarshan Kasturi:** Nine months water heater the volume growth may be only 2% or 3% because we had a very bad Q1 and Q2 because of two reasons, one is pricing issues in the market, second is we have lost at least 3% growth because of lack of supply for gas water heater what Ram earlier mentioned.
- Achal Lohade:** Right. How much is the gas water heater in our total portfolio Sir?
- Sudarshan Kasturi:** That is about 20% of sales of total water heater.
- Achal Lohade:** Great. Thank you so much. I wish you all the best.
- Moderator:** Thank you. The next question is from the line of Manish Agarwal from Edelweiss. Please go ahead.
- Manish Agarwal:** The ceiling fan category the budget increased the duties yesterday from 10% to 20%, so do you see any market share gain in that from the smaller players who actually import from China?
- Sudarshan Kasturi:** If you look at India most of the ceiling fans are made in India, very little is imported. The table, pedestal and wall is what is imported into India and that is roughly 35% of revenue, so barring I think one or two players most of the companies are importing table, pedestal and wall fans into India because we do not have the manufacturing echo system in the country. So that impact will be there for the entire industry.
- Manish Agarwal:** Can you give us any ballpark number, what percentage it will be ceiling fans would be like 10% to 15% will be imported?
- Sudarshan Kasturi:** Ceiling fans may be less than 5% is imported, only those expensive fans above Rs.5000 are usually imported and they are less than 5% of the market. Ceiling fans the impact will be very minimal, impact will be on the table, pedestal and wall, which is 35% of the market.
- Manish Agarwal:** If I would want to break up the entire fans market into ceiling fans and others what would be the broad breakup if you could have?
- Sudarshan Kasturi:** About 65% to 70% is ceiling fans and about 30% is all the other types of fans like table, pedestal and wall.
- Manish Agarwal:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from Jeffries. Please go ahead.



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- Sonali Salgaonkar:** How much percentage of our sales are through e-commerce and modern format for us?
- Sudarshan Kasturi:** E-commerce I think in relevant categories if I remove wires, switches and switch gear we should be about 4% or 5% of our revenues come from e-commerce in those categories. Modern trade is small and mainly in stabilizer and there we might have about 3% or 4% of our stabilizer business coming from modern trade and the regional speciality which is also part of organized trade I think there we have a decent part of revenue coming from there. Though I would say it is still under index to the market.
- Sonali Salgaonkar:** Because in the result presentation we had said that we are focusing on e-commerce from here on, so just was keen to understand?
- Sudarshan Kasturi:** Obviously this 6% was like maybe 2% two years back so it has actually tripled in the last two years. We have also what we are saying is that we are going to shift our resource to participate in this opportunity, which hitherto we have not been focusing in the same way as we are focusing on traditional trade.
- Sonali Salgaonkar:** That is it from my side.
- Moderator:** Thank you. Ladies and gentlemen as there are no further questions from the participants I now hand the conference over to the management for their closing comments. Thank you and over to you.
- Sudarshan Kasturi:** We have no further comments. I would like to thank Ashish and Ambit for hosting this call. Thank you all for listening in.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Ambit Capital that concludes this call. Thank you all for joining us. You may now disconnect your lines.