



“V-Guard Industries Limited Conference Call”

July 27th, 2011

Hosted by
Sharekhan
INSTITUTIONAL RESEARCH

SPEAKERS: **Mithun K. Chittilapilly, Executive Director**
 Jacob Kuruvilla, CFO
 Nidhi Agrawal –Sharekhan Institutional Research

Moderator:

Ladies and gentlemen, good day and welcome to the Q1 FY12 results conference call of V-Guard Industries Limited hosted by Sharekhan Limited. As a reminder for the duration of this conference call, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If should you need any assistance during this conference call, please signal an Moderator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Nidhi Agarwal. Thank you and over to you, ma'am.

Nidhi Agarwal:

Welcome everybody to V-Guard's Q1 conference call. We have today with us Mr. Mithun K. Chittilapilly and Mr. Jacob Kuruvilla, CFO of the company to discuss the results. Now I will hand over the floor to the management and we can follow it with a Q&A session. Thank you sir.

Mithun K. Chittilapilly:

Good afternoon everyone to the conference call. I would like to make an opening statement. First of all, let me say that we have had a very wonderful Q1. First quarter has been extremely good for V-Guard industry. We have been able to register a sales of about 240 crore, up from 170 crore last year posting a growth of over 40%. Our bottom line has also grown by about 11.3% from 11 crore to 12.34 crore. The EBITDA margin for Q-on-Q, our overall EBITDA margin for the current year Q1 is about 10% vis-à-vis 12% last year. The main reason for reduction in EBITDA margin – two reasons; one is that we have spent an amount of about 11.5 crore in advertisements in the first quarter of this year vis-à-vis about 3 crore last year. The main component of this 11.5 crore is expenditure towards promotion of the brand through the IPL platform. Another reason for slight reduction in margin is the summer temperatures during the current were not as hot as the previous years due to intermittent showers in most parts of the country. So, sales of air conditioner stabilizers and motor pumps have been negatively affected and our sales growth in these two products have been mutant. Our sales of stabilizers have only grown by about 15% and sales for pump has only grown by 20% whereas other products

which are not impacted by this particular phenomenon has registered good sales. Our wire segment has grown by about 50%. Our water heater and solar water heating has grown by 65%. Our fans have grown by almost 80% and our inverter business has grown over 100%. So, all put together, this is the reason we have been able to boast a very good growth in sales even though some of the climatic conditions were working against us.

We have also been able to considerably bring down our working capital requirement. Our working capital cycle and number of days was roughly 80 days at the end of March which has come down to almost 60 days by the end of June. And our working capital cycle in the previous year was about 67 days. The main reason for this reduction has been the reduction in inventory. The inventory days has come down from 58 days to 46 days. The debtor's day has also come down from 50 days to 42 days. So, because of all these factors we have been able to have a very efficient management of our working capital but still even after taking all these measures our interest cost has still gone up. Our interest cost has gone from 2.22 crore last quarter to about 3.84 crore in this year. So, on a year-on-year basis our interest cost has actually gone up by 72%. So, this is the basic broad snapshot about V-Guard Industries results. Over to you, Nidhi.

Moderator: The first question is from Pathik G. from IDFC Securities. Please go ahead.

Pathik Gandotra: I had a few questions on how much of the growth you see in the top line has come because of the regional diversification and how much is the South market growing for you?

Mithun K. Chittilapilly: If you look at our 14 days of 240 crore, the South Indian four states have contributed about 176 crore and new markets have contributed about 65 crore. So, in total 240 crore. The South sales have grown by 36% compared to previous year and our market outside South India has grown close to 60% when compared to the previous year.

Pathik Gandotra: Are you selling all your products in the North or only a few products?

- Mithun K. Chittilapilly:** We are mainly concentrating on four main products. We are concentrating on stabilizers, water heaters, pumps, wires and fans. So, basically five products are actively marketed in the new markets. Some of the smaller products are not introduced yet in the full fledged manner in the new market.
- Pathik Gandotra:** I was slightly concerned about your margin. Is it that just because you are going to the North, obviously that growth is going to be a margin dilutive growth for you going forward? Should we assume that structurally the margin that you're making in the South, you will have to live with lower margin in the North as you establish your presence in the North? Would that be a right assessment?
- Mithun K. Chittilapilly:** I think, no. As far as the reason for our margin reduction, that is roughly 2% of our EBITDA margins have reduced when compared to the previous year. It is not mainly because of the South-North expansion. It is mainly on account of increased advertisement and promotion spend. For example, our sales have grown by about 40% whereas our advertisement and promotion cost has increased from 3 crore to almost...
- Pathik Gandotra:** Yeah. I heard that, yes. So, if you take that off, you are saying that your margins are more or less stable. Is it?
- Mithun K. Chittilapilly:** I think now if you look at the ratio of sales, roughly 25% of our sales is coming from the new markets but even if we are expecting this 25% to become maybe 30% by the end of three years but I don't think it will negatively impact our margins because as we have seen in the last one year, our brands visibility and image has improved in this new market and we are able to now bring about better terms and negotiate better terms to the distributors and dealers and even price our products at better prices in these new markets than we used to may be two years back. So, I don't think it will very negatively impact our margins.
- Pathik Gandotra:** Okay. If you look at your advertisement cost has gone up just because of the IPL, largely because of IPL, right?
- Mithun K. Chittilapilly:** Yes.

Pathik Gandotra:

Okay. One more question I had was that, if you look the results of Crompton Greaves which came out very recently – it's one of your key competitors – the margin there had been eroded very significantly probably because what we hear from the market is they took a price hike in their products which the trade did not accept and so their sales collapsed and so the margins collapsed. Couldn't that be a leader who has been a competitive leader in the past can now resort to aggressive pricing to get back at its competitors. You know, you have grown significantly. Even Havells has grown significantly. The markets that Crompton had vacated to had been taken by you guys. So, do you expect the price competition in this industry in this year just because of one player getting very aggressive?

Mithun K. Chittilapilly:

I think what happens in terms of a couple of products is that we have competition from Crompton Greaves. There were two products; mainly that is electric fans and motor pumps. Both these products are extremely dependent on how harsh or how hot the summer is. For example, if you look at current summer, like I explained earlier, the summer was not that hot. In fact it was raining most of the time throughout the summer and the sales growth in fans was muted for most companies. But we were able to grow mainly because we were growing from a small base. I think most established players have their issue whether... the demand for fans was not that strong. So, in such a scenario when companies like Crompton Greaves undertook a price increase, I think it negatively impacted their sales. So, that is a very product-specific problem they had in terms of their fans. In terms of pumps also, we have noticed what happened is that we have also got not much of a good performance in terms of our pumps sales. Our pumps sales have grown only 20% whereas we were actually expecting close to 35% growth. The main reason being because of rains water table in most states has improved and the demands for new pumps have reigned. So, I think what has happened in case of Crompton is mainly a couple of product-specific problems arising out of a peculiar climatic situation. So, I don't think it's only because of the increased prices and the decreased prices the sales were impacted. There was a huge market demand issue in terms of demands for fans.

- Pathik Gandotra:** But that is maybe for this quarter. My point is that secularly those guys have been losing market share and we believe that now there's been a change of management where we have reason to believe that they might come back aggressively on pricing in this industry, so which is why I was kind of concerned about the dynamics of your industry undergoing some stress because of a very large player who is turning aggressive.
- Mithun K. Chittilapilly:** I think we'll have to wait and see. I am not going to make any comments on Crompton Greaves on what they're going to do. We've always had competition in this particular product segment. We started in the fan business about three years back amidst very competitive players, like Bajaj is extremely competitive in the market in terms of pricing. There are a bunch of other players also like Khaitan were also very competitive. So it's not a new thing for us but of course we'll have to wait and see what they do to regain the lost market shares.
- Pathik Gandotra:** Where are you on the price front vis-à-vis competition on fans and pumps?
- Mithun K. Chittilapilly:** Where are we on the...? Sorry?
- Pathik Gandotra:** I mean relative pricing... I mean, are you in the top quartile of pricing or in the bottom quartile of pricing?
- Mithun K. Chittilapilly:** On pricing, mainly if you take South India pricing for fans is – most of the cases are slightly above Bajaj electricals and below Havells in terms of pricing. So, proudly I would say, it's not like you don't cater to only decorative segment like Havells does, but we also don't compete too much on price in terms... So, we are somewhere in the middle, I would say.
- Pathik Gandotra:** And in pumps?
- Mithun K. Chittilapilly:** In pumps, our prices are actually at a premium in South India. We are probably higher than most local players. In some states, our prices are probably higher than the Crompton Greaves or CRI pumps – CRI is sort of a market leader in some certain states whereas in newer markets, of course our pricing is lower than some of the market players.

- Pathik Gandotra:** Okay, because they are obviously has better penetration strategy when you get into that market. My final question is, how do you think the industry will pan out for this year? I mean, are you concerned about growth for the industry as a whole given the economic conditions are going and given the way consumer demand might likely slow down, given - RBI hiked interest rates yesterday they've been hiking consistently? So, GDP growth is slowing down. So, would you think that will impact your industry?
- Mithun K. Chittilapilly:** Generally, I do feel that things are not going to be as easy as it was last year. Definitely, that is not going to be the case. Almost all kinds of product prices in food items and petrol, fuel expenses and everything is gone up, and on top of that, the interest rates have also increased. So, I would see that certain types of consumers especially the South-East class, especially the EMI-based consumers who are buying stuff on EMIs, those kinds of demands I do believe will come down. But we are not expecting a huge growth. Like last year we grew at about 50%. This year our target is about 35% in revenue growth and for us I think it is achievable.
- Pathik Gandotra:** Yes, so you don't see any stress on that. That's what I wanted to understand.
- Male Speaker:** No, not at the moment.
- Pathik Gandotra:** Thanks very much for your time. I really appreciate it.
- Mithun K. Chittilapilly:** Thank you.
- Moderator:** Thank you. The next question is from Amol Rao from Antique Stock Broking. Please go ahead.
- Amol Rao:** Good afternoon, Mr. Kuruvilla. I just wanted to understand a couple of things. Mithun, how the commodity price has been affecting our margins because what we are seeing is things like copper, steel are slightly up on a quarter-on-quarter and even year-on-year basis, so any thoughts on that?
- Jacob Kuruvilla:** Actually, in the last quarter gone by, actually the copper price has dipped a little bit during the quarter. And that has

actually negatively impacted margins on a particular product segment, that is, mainly wires. What has happened is that when suddenly the copper prices do crash from \$9900 per ton levels to \$8000 per ton levels, there is suddenly a slackness in demand because the traders and other consumers and the distributors are awaiting for further fall in copper prices and they are expecting further reduction in the prices of the product. So that is the tendency that always happens. So in that way, our margins have been slightly impacted in that product where we have had to offer some discounts to our distributor. But in a rising price scenario, as long as there is a steady trend of rising prices, we have not seen any problems with that because that was happening last year and even now it is slightly inching up. So as of now it has not impacted us in a huge way.

Amol Rao:

Okay, and just another, I just want to get your thoughts on how far you've progressed with that channel financing scheme and what seems to be the outlook for this kind of setup for us?

Mithun K. Chittilapilly:

Yeah, we've initiated channel financing with Yes Bank. We have started with one of our distributors very recently. However, the effect of this channel financing will not be felt in the first quarter because we've started the actual financing part only after the quarters got over. Initially we are planning for roughly about 10-15 crore of our debt to be moved to the channel financing scheme but whatever the improvement in working capital has not come because of channel financing it has come on account of better debtors management and better inventory management.

Amol Rao:

Do we think that we can hold on to these kinds of gains going forward, Mithun?

Mithun K. Chittilapilly:

You're talking about working capital, right?

Amol Rao:

Absolutely.

Mithun K. Chittilapilly:

Yeah, I think it is possible. I think this time we have been very careful in our production plannings and even in April when it started raining, in the mid of April, we've taken a conscious decision to reduce our production of some of the products like air-condition stabilizers and pumps which has

helped us from piling up of inventory in these products. So I think going forward, we are trying to maintain this level of inventories and this level of debtors. But I think in Q3 we will see some pile up of inventories because Q4 and the next year Q1 are typically good seasons for us, so we will be doing some sort of stocking up for those two quarters. And then Q1 and Q2, I think we will be maintaining this level.

Amol Rao:

Absolutely, and one last question on the North-Indian markets, what is your sense on how things are shaping up in North India because what you're seeing is the agricultural populace is somewhat a target market for us, so what is the sense that you're getting from this market, not the cities or the tier-1 or tier-2 but the lower down places? What is the sense that we are getting of the offtake?

Mithun K. Chittilapilly:

Mainly, see, for example, a couple of the main markets that we have done well in fact our markets like North were mainly Uttar Pradesh and invest mainly in Rajasthan. We have not had much success in penetrating main cities like Mumbai or Kolkata. So, barring Delhi we have not had much success. So, even three, four years back when we started out we have been concentrating more on the tier-2 towns and cities where the competition levels are relatively less. What we are seeing is that there is a huge surge in demand from the semi-urban area because most people are buying their first home appliances and those sort of consumers have also started spending money. So, as long as the agricultural output remains strong, the prices for their produces remain stable. I think we should see good level of demand coming for these products.

Amol Rao:

Alright. And last question, Mithun, we were also looking or examining the idea of launching some sort of brown goods or kitchen appliances as far as I remember. So, any progress on that, any timeline that you all have fixed on that?

Mithun K. Chittilapilly:

Yeah. We are hoping to launch the product line somewhere in end of Q2 or in Q3. We have already completed the market surveys and those kinds of activities. We have decided that initially the product will be launched in Kerala which is our strong and home market but I think in the first

year the impact of this particular product on our total revenue and bottom line will be very negligible.

Amol Rao: Oh I see, alright. Thanks so much for your time, Mithun. All the very best year.

Mithun K. Chittilapilly: Thank you.

Moderator: Thank you. Before taking the next question, we would like to remind participants to press “*” and “1” to ask a question. The next question is from Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: My question – the six product lines that we have given – if you could give us the revenue sales for the quarter and the market shares that we have on the India-wide basis.

Mithun K. Chittilapilly: Okay. Just I will just give you the sales figures first. In the stabilizer segment, we have done revenue of about 58 crore vis-à-vis 50 crore last year. In the wire segment PVC [indiscernible] inflated wire segment, we have done sales of 65 crore as against 43 crore last year. In the motor pump segment, we have done sales of about 35.5 crore vis-à-vis 30 crore last year. In water heater segment, we have done about 14.5 crore vis-à-vis 8.66 crore last year. In the solar water heater segment, we have done sales about 5.2 crore vis-à-vis 3.1 crore last year. In the fan segment, we have done sales of 20 crore vis-à-vis 11 crore last year. In the inverter segment, we have done sales of 15 crore vis-à-vis 7 crore last year. In the UPS segment, we have done sales of 8.6 crore vis-à-vis 5.65 crore last year. And in the LC cable segment, we have done sales of 16 crore vis-à-vis 7.6 crore last year.

So, this is the basic sales growth in the various product. As far as market share is concerned and as far as stabilizer is concerned, the all-India market for stabilizers is estimated to be about roughly 1400 crore. So, we will have somewhere around 13-14% of all-India market share. In terms of wires, it's a very huge market. It's roughly 6000 crore market in India. So, our market share is fairly negligible, probably 3%. In terms of pump, again it's a fairly large market in India, roughly about 2500 crore and our market share will be roughly another 4-5%. In terms of water heaters, the market in India is estimated to be about

800 crore and we will have about 8-10% market share in that product segment. So, this is the basic main products and their market share.

Pritesh Chheda:

Okay. For the quarter, what would be the volume growth and the price led growth in the quarter if one has to do a blended average basis?

Mithun K. Chittilapilly:

I don't have the quantity growth with me but I can say that, for example, in terms of stabilizers our prices have been hiked up almost by 5% over the previous year. In terms of wires, our prices have gone up by at least 25-30% compared to previous year. And in terms of pump, our prices have gone up by at least around 10% as compared to the previous year. Electric water heater also, our prices have gone up by about 8% compared to the previous year. So, most of the products we are affected between 5-10% price hikes if you compare the previous year first quarter.

Pritesh Chheda:

Okay. On the demand involvement side, specifically in South India, if you could give us some idea as to how it is panning out in tier-2 and tier-3.

Mithun K. Chittilapilly:

For us actually, we've had a good growth across our South Indian markets for Q1. In fact, some of the sales outside South India, they're not met as far as our expectations were concerned. For example, we have started branches in places like Hobli and Vijayawada; and in terms of Madurai in Tamil Nadu, Hobli in Karnataka and Vijaya Wada in Andhra Pradesh. So, these branches have done extremely well and these new branches are mainly catering to the farming belt of the respective states. So, the demand has been strong for most products in these places. For example, products like electric water heaters and stabilizer segment has done extremely well in these places apart from the regular movement of pumps which is another product category that moves in these places. So, generally we've seen across most of our branches whether it is in the city or outside in terms of the reach, we have seen there has been good demand for most products in the first quarter.

Pritesh Chheda:

Okay. Lastly, just wanted to understand V-Guard as a brand, three years down the line, what kind of business model can develop around this brand in terms of the product lines?

- Mithun K. Chittilapilly:** We will look at launching at least one or two new product categories every year going forward if possible. And we will look at launching our new products – it will be either of these two different categories. Either it will be either consumer electrical product or it will be a small appliances product in the consumer durable range. So, we are looking at launching in the next three years at least four to five new product lines.
- Pritesh Chheda:** Something like toasters, grillers and all are considered as consumer appliances?
- Mithun K. Chittilapilly:** Yes, that would be considered as small appliances.
- Pritesh Chheda:** And consumer electrical is...
- Mithun K. Chittilapilly:** Consumer electrical would be something like switch gears or wires or those kinds of products which are sold primarily through the electrical trade.
- Pritesh Chheda:** And V Guard will have a pan India presence?
- Mithun K. Chittilapilly:** Yes, we already have pretty much started our operations everywhere. We roughly have about 22 branches now across India feeding to most of the markets in India.
- Pritesh Chheda:** So, north, south, east, west – all?
- Mithun K. Chittilapilly:** Apart from Jammu and Kashmir, Bihar, and north eastern states, we now have a direct branch office with warehousing and all the activities in almost all states in India.
- Pritesh Chheda:** And lastly, if I have to see your dealer or say the retail stock point network, how would it compare with Havells and Bajaj Electricals?
- Mithun K. Chittilapilly:** I think we roughly have about 12,000 retailers in our fold and we also have about 425 225(26:24) odd distributors and about 1500 channel partners. But I think the number of retailers is really not the measure because we have retailers who do couple of crores of business for us. We also have dealers who do Rs. 10,000, Rs. 20,000 in a year. So, it is not really comparable but as far as the reach is concerned,

definitely we are aiming for at least 25-30% increase in the number of retailers in our fold.

Pritesh Chheda: At this juncture, how does, say, Havells and Bajaj Electricals fare on all these three points? Would you have an idea?

Mithun K. Chittilapilly: No, I do not really have the exact numbers in terms of how many channel partners. But read somewhere in the region of 25,000 to 28,000 retailers is what Bajaj has in their fold.

Pritesh Chheda: Okay. Many thanks to you and all the best.

Mithun K. Chittilapilly: Thank you.

Moderator: Thank you. The next question is from Ankit Mukesh from Vertex Securities. Please go ahead.

Ankit Mukesh: My question is what comprises of other expenditure because it has gone up by substantial amount that is first. And second consists of interest – basically, I may consider this as a working capital loan. Third would be a tax expense – tax expense has been reduced in current quarter. Is it because of our tax exemption from **Cochin** Kachicoon (28:07) facility?

Mithun K. Chittilapilly: First, I will talk about the interest part. The interest has gone up from Rs. 2.22 crores last year first quarter to Rs. 3.84 crores. So, primarily it has gone up by almost 72%. If you look at our working capital drawing, it is roughly now about Rs. 120 crores as on 30th June. If you look at the figures from March year end last year, it was roughly Rs. 140 crores. So, we have actually been able to bring down or stress on working capital and dependency on working capital by that extent. But the problem is that the interest rates are frequently inching up. So, even though we are trying to reduce debt in terms of working capital debt, the interest rate percentage is going up. So, that is the reason why it has gone up. Second is the... I will let my CFO answer about the other tax exemption and the other expense.

Jacob Kuruvilla: Yes, we do have a two place of survey, where we have tax exemption. That is one is in Kashipur where we manufacture our house wiring cable and the other one is

Khalam [Phonetic] where we made as a part of our finance, about rate of repayments. For the first five years, we have a 100% tax exemption. So, that is why the rate of tax has come down. It was actually during the 31st of March, it was around 31% rate. It has come down. Presently, the tax is around 29.8%. So, the profit from this to mills is 00:29:52. That just brought down the taxes.

Mithun K. Chittilapilly: Yes and your other question was regarding other expenses. Was it?

Jacob Kuruvilla: Can you repeat that question sir?

Ankit Mukesh: What comprises of other expenditure?

Jacob Kuruvilla: Yes. Other expenditure, what we have declared in our... we have establishment charges. Other than the employee stocks and the selling a distribution expenses, what comes there is mainly the establishment expenses.

Ankit Mukesh: Installation charges mainly.

Jacob Kuruvilla: No, it is the establishment charges.

Ankit Mukesh: Okay, establishment charges.

Mithun K. Chittilapilly: Establishment charges mainly comprise of rent for paying for our various offices and warehouses across the country. It includes postage and all the other expenses. And if look at the increase, it is mainly due to our increase in operations. That is, we have gone and taken larger warehouses in many of the places. So, the rent has gone up. Our rent paid in most of the places have gone up. So, we roughly have now about 350,000 square feet of warehousing spaces across various parts in India. So, that is the main component why it has gone up as far as the establishment expense is concerned.

Ankit Mukesh: Okay, thanks a lot.

Moderator: Thank you. The next question is from Sangam Iyer from Alfa Advisors. Please go ahead.

Sangam Iyer: . Sir, my first was question to you was from the margin profile for this year and going forward. We guided for a

35% revenue growth. What would be the outlook on the margin front, sir?

Mithun K. Chittilapilly: As far as the EBITDA margins are concerned, we are targeting 9-10% EBITDA margins for the current year.

Sangam Iyer: 9 to 10%. And the ad spend going forward, would we see a similar kind of percentage for the full year or how should one be looking at that?

Mithun K. Chittilapilly: The ad cost for the first quarter is about 4.85% to sales whereas for the full year it will be roughly about 3.5%, roughly expecting the 3.5% of sales to be our ad expenses on a full year basis. So, it will actually go down.

Sangam Iyer: Okay. So, you do not see competition actually resulting in having a higher expenditure?

Mithun K. Chittilapilly: Well, I think competition is a phenomenon that is always there. What we have decided consciously from last year onwards is that we will increasingly spend money in national platforms. So, we have actually pooled in money from all the other activities we used to do and putting it in one single platform like IPL or something like that which has the national appeal. So, that has increased. Whereas, the year before that we have not done that. So, that is one of the reasons, the expenses has gone up in this first quarter. But we will not see any such huge level of spend in every quarter. For, example, we already spent about 11.5 to 12 crores in the first quarter. On a full year basis, we are expecting to spend about 35 crores. So, with 35 crores will be spread across the next three quarters because of which the ad expense amounts spent in each quarter will actually come down.

Sangam Iyer: Okay. So, this 35 crores also would include any expenses related to new launches etc., all considered?

Mithun K. Chittilapilly: Everything together, yes.

Sangam Iyer: And sir, what would be your current debt position? Could you share that?

Jacob Kuruvilla: Yes. Our long term debt is very less. We have only around 3 crores debt outstanding in long term loans. But working

capital still presently, we are drawing fund based loans of about 122 crores.

Sangam Iyer: 122?

Jacob Kuruvilla: Yes. But this is reduction of our March figure. In March we had working capital loans of about 142 crores.

Sangam Iyer: Okay and our current cost of debt would be approximately?

Jacob Kuruvilla: It has gone up from say around the 9.75 in March to 12% now.

Sangam Iyer: 12%?

Jacob Kuruvilla: Yes.

Sangam Iyer: Okay. And our current net worth would be, sir?

Jacob Kuruvilla: Current net worth will be around 170 crores.

Sangam Iyer: 170 cores. Okay. And, sir, any CAPEX plan - could you share that this year and the next year?

Jacob Kuruvilla: Yes, we are planning... our current year CAPEX will be around 25 crores. Out of which the major expense will be for factory in our new [inaudible] [034:32].

Sangam Iyer: Yes.

Jacob Kuruvilla: Yes, I was explaining about the CAPEX plan for the current year. Our actual total fund will be around 25 crores out of which the major fund will be towards the water heater facility in Piranjare in Tamil Nadu. 8 crores for two water housing facilities in, one is Hubli and another one in Vijayawada. About 4 crores for our facility expansions in our warehouses in Bangalore, Kerala, Kochi, Palghar and in Coimbatore and another 4-5 crores for our normal represent maintenance cost [35:08] for our plan. So, the total will be around 25 crores CAPEX during the year.

Sangam Iyer: Okay and of which in the first course how much did we do?

Jacob Kuruvilla: First quarter, we have spent around 4 crores.

- Sangam Iyer:** Four crores, okay, and our full year tax rate would be around 25%-28% run rate.
- Jacob Kuruvilla:** Yes, we expected it to be around 29%.
- Sangam Iyer:** 29%. Great, sir. Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from Saurabh Das from Sundaram Mutual Fund. Please go ahead.
- Saurabh Das:** . Sir, could you give us some colour on the plants for the gas heater. I think you have talked about gas heaters earlier. So, with more gas available are you tying it with city gas companies for promoting use of gas or any initiatives on that front. Could you just talk about it?
- Mithun K. Chittilapilly:** Yes, gas water heater is something that we launched last year. It is doing extremely well. I do not have the exact sales figures for the gas water heater alone. But the water heater division which includes gas water heater roughly our sales has been about 14.5 crores vis a vis about 8.6 crores. We have grown about roughly 67% in that segment. As far as the distribution model, go to market model for this product is we are mainly concentrating on selling this product through the retail market. We have not gone and tied up with any gas companies. There is a huge demand of this product coming from certain areas, example, Gujarat. Most of the cities are already having pipe and now this product is also being increasingly used in far flung areas, away from the city where electricity power also is less. Indians have to depend on gas for heating water. So, as of now we are selling this product through the retail networks that is primarily the network that is selling our normal water heaters.
- Saurabh Das:** Sure and sir, in terms of the recent Tamil Nadu government schemes for distribution of fans and other electric kitchen appliances to the public, have you participated in any category?
- Mithun K. Chittilapilly:** Yes, we have already built for supplying of the electrical fans to Tamil Nadu government. We have bid for that project and we are awaiting results from the same.

- Saurabh Das:** Okay. So, when does one expect kind of the conclusion of new ordering to happen, sir, for Tamil Nadu government orders?
- Mithun K. Chittilapilly:** I think we have very little clarity on the timeline. What I know is that we had bid for the particular... we have given the tenders about three weeks back to the government. And we are expecting a response from them at any time. About the actual supply of the material, they have not made any specific agenda with the timeline of supply and stuff like that. As of now, it is only a bid and we have to really see who has made a competitive bid on that particular product.
- Saurabh Das:** And is it correct to assume that it is the two million numbers per annum kind of order of the total contract?
- Mithun K. Chittilapilly:** We have in fact bid for about 500,000 pieces fans, that's about it. We have bid for the whole thing. What I came to understand is that they are planning to split the order to different companies because I think no single company in India is able to supply the entire product. So, that is another thing. As of now, we have bid. So, I think if I am rightly true, I think it is not two million, I think it is about 1.7 million pieces.
- Saurabh Das:** Yes. Okay and we have been talking new products for some time but we have not seen much activity in the market. So, is it possible to give some more colour on what is the products that would coming to market within September or October since you are already there nearly?
- Mithun K. Chittilapilly:** Yes, we have actually one product which we have already finalized and we have started test marketing in a very small manner in Cochin. We have entered into the switch gear division that is mainly MCB and ELCB. So, first, we are planning to only launch this product in Kerala and only to the main electrical counters in Kerala. We are not going to market this product into the product segment as yet. We will be just supplying to retail channels. So, that is one product that is the first one that is to come out. I think we have already started supplying in very small quantities to some of our retailers. The second product that will hit the market is probably in end of Q2 or beginning of Q3. We are getting into the induction cooker segment. So, that is the second product in the kitchen, the small appliances

division that will enter the market. The third product, we are planning to get into is the mixer-grinder segment, that we will take some more time because we are in the process of developing some unique designs and we do not want to get into the market unless we have some distinguishing features. So, I believe that that particular product, the mixer-grinder segment will be the last one to come out and will be probably at the end of the financial year.

Sangam Iyer:

Okay. And if you look at our company, probably going forward 2000 crores plus in the current year but for the next two years, if you are looking at FY13, FY14, with the new products coming in, where do you see yourself as a company in terms of overall revenues and share of business in the South and the rest of India?

Mithun K. Chittilapilly:

I think we will be able to maintain this current run rate of 35% revenue growth for the next two years because we are relatively having less market share in some of the new market that we have entered. And we are also still gaining market share as we speak in certain products like fans, inverters we have launched recently only in the last two to three years. So, because of that I think, we will be able to maintain at least 35% growth. As far as the North-South is concerned, in the current year we are expecting out of the total revenue of roughly 30% to come from the North market and in the next year maybe it will go to 35% and after two to three years it might slowly become about 40%. So, I think after three years we will see at least 40% of revenue coming from the North-South market.

Sangam Iyer:

Okay. And as our presence in the North also matures and products mature, do you think this 9% to 10% EBITDA margin that we are currently expecting, can that shift upwards to around 11% if the benefits of operating leverage also kick in? Is that something that is possible once you hit 1300 to 1400 crores of revenues next year, is that something possible?

Mithun K. Chittilapilly:

I think that is definitely possible. For example, if you take most of our branches outside South India, they have just started breaking even, some of them starting to deliver returns. So, as we move forward and we have better brand recall and better consumer enquiry level for our product, we will see improving our realization for price and trying to

bring it as close to our mature market as possible. So, I think that is a progressive efforts that we have to do so. We would see little bit of expansion margins because our margins from selling outside South India also will improve because we are able to do that once we have a better brand pool of our products.

Sangam Iyer: And lastly sir, you talked about the induction cooker, is this product going to be manufactured by us or it would be outsourced from other countries or other vendors?

Mithun K. Chittilapilly: Some of them, it will be outsourced and some of our vendors who are already manufacturing some other products for us like pedestal fans and some of the electric water heater manufacturers, some of the vendors are already making this particular product in a very large way in China and we will be using that vendor base to launch this product.

Sangam Iyer: Fine. Thank you very much and wish you the very best. Thank you.

Mithun K. Chittilapilly: Thank you.

Moderator: Thank you. The next question is from Pritesh Vora from Equanam. Please go ahead.

Pritesh Vora: . Sir, with respect to your North expansion you mentioned that you are increasing your distributor, can you elaborate mostly what you are doing in the North side?

Mithun K. Chittilapilly: I think we started with expansion actually about three years back. Now, we have recruited most of the teams that is required, barring a few states, most of the people are now – we have recruited. And we have out of this 220 odd distributors about 70-75 distributors are in these markets. And out of this 1200 channel partners, roughly 400-450 channel partners are again in these markets. So, as of now the main activity for us there is now to expand our network, try and get our products into as many shelves as possible and we have also seen a huge improvement in our demand for our products after we have done the IPL advertisement activities, our awareness levels have improved - the trader confidence levels have improved and generally we are seeing a very good uptake in the market. So, as of now our

main thrust there is to improve networks. So basically appointing as many new retailers as possible, getting into as much new geography as possible. That is the work that is what we are doing.

Pritesh Vora:

And sir, you mentioned about CAPEX of 25 crore, what generally this incremental CAPEX will bring additional turnover?

Jacob Kuruvilla:

Saurabh, what you have cited, that facility is going to be upstreamed by last quarter of this year. It will almost double our capacity level and it will bring at least 30 crores revenues.

Pritesh Vora:

No, when you are doing the incremental CAPEX of 25 crore, what generally say one or two year down the line this additional CAPEX, what kind of turnover it brings?

Mithun K. Chittilapilly:

See, out of that CAPEX only 8 crores is going for the brand new facility. So, 8.5 crore CAPEX will bring in about roughly 30 crores in revenue, that is assuming the plant is running at full capacity. Those products – the sale of those products will be roughly about 30 crores. Due to the expansion of production activities in our motor pump factory and the electrical water heater and fan factory, the rough CAPEX we will be spending is about 6 crores. So, there also we are expecting at least an incremental revenue of about 30-40 crores. But rest of the CAPEX is going for warehousing facilities that is not any production activity, that's mainly improving our warehousing infrastructure. So, we will not be getting any additional revenue from those projects.

Pritesh Vora:

Alright, sir. And can you, sir, elaborate your working capital generally? What is your working capital cycle and how it has moved over the years?

Mithun K. Chittilapilly:

Yes, if you look at our working capital, our inventory as on June end was roughly 122 crores and our average sale is 80 crores. So, inventory number of days is roughly 46 days. Last year June, the number of days of inventory was roughly 56 days, so we have been able to bring down the days inventory levels to a good extent and in March, this was about 58 days. So, from March levels also it has considerably come down. In terms of our debtors, about Rs

113 crores as on June, and the average sale is about Rs 80 crores, so roughly it's about 42 days of debtors, whereas the last year this was roughly 40 days and in March it was about 50 days. So we are again comparing to March, our debtors, we have able to considerably bring down. On the whole working capital cycle, number of days, is roughly 60 days now that is debtors plus inventory minus creditors and last year June, it was roughly 67 days and in March end that is the Q4 of the last financial year was about 80 days. So we have been able to considerably bring down our working capital cycle and in March roughly our bank drawing was about Rs 140 crores for working capital which we have been able to bring down to about Rs 120 crores even with improved turnovers. So, generally our working capital cycle has improved.

Pritesh Vora: You mentioned about Rs 42 crores debtors. Do the trade channel and the dealers do not fund this? I mean do you not...?

Mithun K. Chittilapilly: No, sorry, it's not Rs 42 crores of debtors, it's Rs. 113 crores of debtors.

Pritesh Vora: No, 42 days you said, 42 days of debtors. I'm assuming that intermediary channels and the dealers and the distributors don't fund this, is it? They will wait for – how does the cycle work, I mean once you...

Mithun K. Chittilapilly: Basically, we have different product lines. So our credit terms for different product lines vary. It can vary anywhere from, for stabilizers for example our credit terms are about, in an average of 25 days and for wires it may be as high as 45 days. So, on an average putting all the product lines together on an average it becomes 42 days. So typically after we sell a product on an average, we will get the money after 42 days. And we are not using any, what you call, a channel financing at the moment to bring down these debtors. Once we do that, these debtors levels will further come down.

Pritesh Vora: One is a larger question, like, say it is expected that power ability will gradually ease in at least some of the Western state or Northern state, say in Gujarat, totally it is power surplus now. So in the larger theme, where do you see your

V-Guard, the main product, how that will move and what is your take on that?

Mithun K. Chittilapilly: So, now stabilizer roughly contributes about 25% of our revenues. Over the years, it has steadily come down – it was roughly 35%, 40% of the revenues five to six years back. So over the years, our dependence on that single product has come down. Second thing is that if power distribution does improve and we do have stable power, and we are expecting improved electrification in villages and non-electrified areas, it will actually drive demands for our other products which can be used with electricity. So we don't see much of a problem in that sense as far as the company as a whole. Probably after 10 years down the line, we may find stabilizer as the category of becoming irrelevant in some state, but we'll be able to compensate this with the other products.

Pritesh Vora: Alright. Thank you very much.

Moderator: Thank you, the next question is from Ankit Mukesh from Vertex Securities, please go ahead.

Ankit Mukesh: Good evening sir, my question is about ESOP plans. We were supposed to come up with ESOP plans. Where are we right now? Will we be able to do it in current financial year or in the next financial year?

Mithun K. Chittilapilly: Actually before the company went for an IPO about three to four years back, the promoter family had literally gifted about 3% to 4% of the company, so still about 2.5% to 3% of the company is owned by the employees, but we have not done any fresh ESOP plan after that. However, we are still working on it and as of now we have not taken any decision at the Board level to approve any ESOP plans but we feel that our attrition levels are not that high especially in the middle and top level management, so as of now we have not aggressively pursued for any ESOP plan. That is the truth.

Ankit Mukesh: Okay sir. Thanks a lot.

Moderator: Thank you. The next question is from Sangam Iyer from Alfa Accurate Advisors, please go ahead.

Sangam Iyer: Could you just give us the margin profile of your various products like stabilizers? How is the margin profile in these? And when we say we are bringing in more household appliances going forward, how should one be looking at the margin profile going forward?

Mithun K. Chittilapilly: Our EBITDA margin for stabilizers is roughly 17% for the first quarter and last year also, for the whole year it is roughly 17%. Our margin for wires has actually come down. Like I earlier explained, due to decrease in copper prices we had to pass on some additional discounts for this product. So margin has come down to 4.61% vis-à-vis 5.2% last year and 8% on the last whole years. For pump our margins have been fairly stable at about 11% and even last year quarter one it was about 11%. For water heaters our margins are about 16%, last year our margins are about 19%, so that's come down slightly. So, on an average basis, our EBITDA margins are about 10% compared to about 12% last year. So I think the best example for us to look at is two products like fans and inverters. These two products are launched about 2½ years back and they're currently both delivering EBITDA margins of about 7.2%. And in the case of fans, we have had an extraordinary spend in terms of advertisement and after considering that, it has delivered 7%. Otherwise, it should have been in the region of about 12% to 13%. So even when we introduce new products, I think we will be expecting some sort of similar margin levels like at least maybe starting with 5% to 6% and going up to 11%.

Sangam Iyer: Okay, and sir, the household appliances that you've mentioned like the induction cooker etc, it should all be direct manufactured from third party manufacturer currently and then supply to the market.

Mithun K. Chittilapilly: Yes, correct.

Sangam Iyer: Okay, and sir this water heater segment, you said that it should come by Q3 end, this solar water heater that you are expanding currently. So that would mean that current water heater that's giving us – it would double the capacity overall.

Mithun K. Chittilapilly: Yes, for example in the current year, the current solar water heater plan has got a capacity for both 24,000 systems per

year, and one we are putting up is also almost a similar capacity, so it will be roughly doubling the capacity.

Sangam Iyer: Okay. Thanks a lot sir.

Moderator: Thank you, ladies and gentlemen. That is the last question. I would now like to hand over the floor back to Ms. Nidhi Agarwal for closing comments.

Nidhi Agarwal: I would like to thank the management for giving insightful information and also would like to thank the participants for joining us on con call and any comments from management?

Mithun K. Chittilapilly: No, nothing else. I thank you all again for participating this con call and thank you very much, Nidhi.

Nidhi Agarwal: Thank you sir.

Jacob Kuruvilla: Thank you.

Moderator: Thank you. On behalf of Sharekhan Limited, that concludes this conference call. Thank you for joining us and you may now disconnect.