Y 2011 Earnings Call - V-Guard Industries Dt-18 May’11

Operator

Ladies and gentlemen, good evening and welcome to the V-Guard Industries' Q4 FY11 Earnings Conference Call, hosted by IDBI Capital Market Services Limited. As a reminder, for the duration of this conference, 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. At this time, I would like to hand the conference over to Mr. Arun Baid of IDBI Capital. Thank you, and over to you, sir.

Arun Baid, IDBI Capital Market Securities Ltd.

Good morning, ladies and gentlemen. On behalf of IDBI Capital, I welcome you all at that post-results concall of V-Guard Industries for the quarter ended March 2011.

Today, we have with us from the management side Mr. Mithun, who is the Executive Director; and Mr. Jacob, who is the CFO.

I request Mr. Mithun to give his opening remarks. And then the floor will be opened for Q&A. Over to you, Mr. Mithun.

Mithun Chittilappilly, Executive Director

Thank you, Arun. Good afternoon everyone.

V-Guard Industries has done a tremendous performance for the last quarter of financial year ended March 2011. We did a total sales of 726 crore for the whole financial year with a growth of about 60%. And for the whole year, the net profit after tax excluding exceptional item is 39.6 crore against 25.5 crores in the last financial year, showing a growth of 55%.

For the quarter net sales, we achieved a sales turnover of 226 crores as against 142 crore the last year, showing a growth of about 60%.

And as far as net profit is concerned, we had a net profit of 11.28 crores as against 6 crores last quarter of last financial year, showing a growth of 86%. Almost all sort of categories have driven the growth for us. We had a good growth in products like wires, water pumps, water heaters and stabilizer segment. All the main product categories have performed. And also we have had good growth due to our geographical diversification.

For the whole year ended in March, as far as South India is concerned, we had a turnover of 564 crores as against 383 crores, showing a growth of about 47%. As far as the new market is concerned, the market outlets South India is concerned, we have a turnover 162 crores for the last financial year as against 71 crores a year before, showing a growth of almost 130%.

So, I will be free to take any questions regarding any matter.

Questions And Answers

Operator

Thank you very much, sir. [Operator Instructions]. The first question is from the line of Amol Rao from Antique Stock Broking. Please go ahead.

Amol Rao

Good afternoon, Mithun. Good afternoon, Mr. Kuruvila.

Mithun Chittilappilly, Executive Director

Good afternoon.

Jacob Kuruvila, Chief Financial Officer

Good afternoon Amol.

Amol Rao

Yeah. Sir, just a couple of questions. One is on this exceptional item of around 3.6 crores that we had. What is this exactly?

Mithun Chittilappilly, Executive Director

The exceptional item is land that was unutilized by the company in Cochin, which was sold off.

Amol Rao

Okay. So this is profit on sale of land, basically?

Mithun Chittilappilly, Executive Director

This is profit on sale of land, yes.

Amol Rao

All right. Sir, next couple of question on the future path that we are embarking upon. Sir, we are going in a big way for branding and advertising, obviously I mean to get eyeballs. So what is our sense on where we would be going a few years down the line?

Mithun Chittilappilly, Executive Director

Yeah. We have traditionally being spending roughly 4 to 5% of our revenues on advertisement.

Amol Rao

Alright.

Mithun Chittilappilly, Executive Director

Advertisement keeping the budget with advertisement and promotional budget, the amount for the coming years, that is the current year is about 35 crores. This is roughly 5% of our last year's turnover. So 720 crores, 5% is roughly 35, 36 crores. Out of this 35 crores, we have the amount about 25 crores to be spent in ATL above the line activity, that is through mass media like television and newspapers.

Amol Rao

All right. And the remaining 10 crores would be for dealer incentives and commissions and so on?

Mithun Chittilappilly, Executive Director

Yeah. The remaining 10 crores will be for hoardings, in-shop branding, plumber's need, electrician needs, dealer's need, dealer engagement activities, all source of below the line activities.

Amol Rao

Okay, okay. And one more question that I wanted to ask you is, we have done a great job at the diversification part of revenues in a geographical sense. But, I mean going forward, where do you think the thrust would come from in terms of... do you think we can set our channels more in the north or do you think there are new products or probably new ideas that we would be banking on to increase our sales?

Mithun Chittilappilly, Executive Director

The growth for sales will come from two aspects, like you rightly said one aspect is the... for our matured products for the whole, in already established products like pumps, stabilizers and electric water heaters, where we are already having a good end wires, where we are having a good network in South.

The growth of these four products will be mainly driven by new markets, when a new geographical expansion. Because most of these products have been with us for some time, and we have almost... we have entered every nook and corner of Southern India. So for these products, the growth will come from new markets.

But there are certain products like newer products are being introduced like LT cable or fans, inverters. These new products definitely their growth will come from South itself in the beginning, because we have just actively started marketing these products in South. Of course, certain products like fan, we have also recently launched in outside South India. So, both these factors will contribute to the growth of the company in the next few years.

Amol Rao

So, do we expect to maintain the same amount of working capital, let's say discipline that we have been keeping over the last three years going forward, I mean in the sense that we won't have to subsidize our distributors to kind of boost our sales?

Mithun Chittilappilly, Executive Director

I think when we venture outside South India, we knew it was going to be a tough task. And when we initially ventured out three years back onwards, we were giving the credit terms we offered to our distributors and dealers outside South India in a new market were higher than what we were offering in South. Maybe 10 days more than what we were typically offering in South.

Amol Rao

Okay.

Mithun Chittilappilly, Executive Director

But that put a strain on our working capital requirement, but off lately what we have seen is that we are slowly getting better brand recall in the consumers mind in a new market. V-guard is slowly becoming a recognizable name. There is a huge increase in the level of confidence among the trade for our products. So due to all this we are now in a position to slowly maybe tighten the screw.

So, I think we won't be further... we should be able to maintain the current working capital to sales ratios, as we are maintaining right now.

Amol Rao

All right. Thanks so much Mithun, thanks Mr. Kuruvila, and congratulations on a great set of numbers. And by the way the ads are excellent so -

Mithun Chittilappilly, Executive Director

Okay, thank you.

Amol Rao

Yeah.

Operator

Thank you. Our next question is from the line of Saurabh Das from Sundaram Mutual Fund. Please go ahead.

Saurabh Das

Good afternoon, sir and thanks for the opportunity.

Mithun Chittilappilly, Executive Director

Good afternoon.

Saurabh Das

Congratulations for a very good set of numbers.

Mithun Chittilappilly, Executive Director

Thank you. Thank you very much.

Saurabh Das

Sir, my first question pertains to your geographical expansion and the previous speaker rightly pointed out about the increase in working capital. But before that I just wanted to get a sense on... in this also coming at the cost of margins slightly our margins in North along with the higher working capital also lower.

Mithun Chittilappilly, Executive Director

Yeah. I think we have opened... we started getting outside South India as of three years, four years back. And last two years we have seen a significant increase in the revenue. And right now the revenue from the new market is standing at about 22% of our total turnover.

We are also monitoring each and every single brands profitability every month. So, I am happy to know that at least 50% of these branches are operating outside South India, they have already broken even. So that means we are able to cover and maintain their overheads and expenses.

The other 50%, I am showing a slight... it's not huge loss slightly under loss because of lack of volumes it is there, delay in starting the branches like, for example, a branch like Calcutta which looks profit much later than a branch like Punjab, is still picking up. So, we are monitoring this aspect very closely.

If you ask me you are right... if you take the overall margins, if you talk the overall margins of course it is getting slightly drag down because we are... I can say that from the 22% of revenue that is coming from the new markets after considering all the overheads we may not be making much money from them.

And the money is actually being made by the branches in South India. But, of course, this is a initial period and I think when we continue onwards we should start seeing and start slowly delivering profit and then, of course, in the future year definitely this will be a huge trends as well as cooperate is concerned.

Saurabh Das

Sure sir. That's... I really appreciate that. I just wanted the check just to get the quantum that assuming if your Northern branches were making the same level of profits as you sold, what would have been the company's average profit margins?

Mithun Chittilappilly, Executive Director

See, I can safely say that 39 crores of profit that is being made, is entirely made from the South Indian branches. Because some of the branches are making money in outside South India, some of them are not. So, I think they pretty much may get each other.

So, I can safely say that if there is a only operating in South, our net profit after tax margin would be somewhere about 6.5 to 7%, as against 5%. So, there would be at least a difference of 1.5 to 2% that is getting drag down.

Saurabh Das

Okay, okay. That's helpful. And in terms of sir products introductions in North, is the current portfolio of our products available in South, also available completely in North or are there products as well as geographical expansions left in the markets which we are already presented?

Mithun Chittilappilly, Executive Director

In terms of certain product like stabilizers and pump and electric water heaters, like I earlier that we have a critical penetration level in South. So, it will be unreasonable for us to think that there will be a huge growth.

Of course, there will be a growth of may be... these products may grow at maybe 15, 20% year-on-year because their entire market itself is growing. But more than that a huge growth for these products in South we are not expecting. So, but whereas one of the newer products like fan or inverters or UPS systems, these products, of course, they are still unpacked territory in Southern part of country. So, definitely they will continue to penetrate the South Indian market as well.

Saurabh Das

Sure. Just sir, very broadly in terms of growth, what kind of geographical growth rate you are looking at in South and non-South markets for the next year?

Mithun Chittilappilly, Executive Director

We are targeting about at least to double our turnover what we have got from North. So, we are looking somewhere in the region of 300 crores of revenue in from Northern part of India. And from South, we are looking at least 30%... 25 to 30% growth. So may be roughly in the region of around 700 crores of revenue from Southern part of India.

Saurabh Das

Interesting. Sir, on raw materials we have seen a spike in the last one year and now a gradual cool-off in major commodities.

Mithun Chittilappilly, Executive Director

Yes.

Saurabh Das

What's our purchasing policy? Are we seeing some benefits to come in the first quarter or first half of the year, or are we already tied up for the commodity requirements?

Mithun Chittilappilly, Executive Director

We... for example, certain products like, I think there is always a time-lag between when the commodity prices go down and actually when it gets reflected in the manufacturing. Because there is huge cycle of procurement of raw material, the manufacturing and our buying from the vendors. This is for products which are manufactured outside the company.

So, of course, we have had... we will be getting some benefits out of it, but again it's too early to say because the correction of raw material prices happened only in the last few weeks. Before that the prices were still high. But usually the case is that when there is cool down in metal prices, we have seen in the past that we have been able to take some benefit out of it. But in some cases we have not because when it comes... companies are sitting with the huge stock levels of stock they have, they tend to offer extra discount as well.

So we have to... I don't know how far it will really benefit us, but I think our margins will definitely would not go down, because despite of the price rise is over and now it is showing a declining trend. But, I do not know how much benefit it will take out of it. But as now I can tell you is we have not reduced our product prices significantly. But some product like wires, we might have to reduce little bit of the prices because our competitors have started cutting prices.

Saurabh Das

Okay, okay. Just last question sir. After which I will come back in the queue. This is on your working capital and I was just looking at over the last six or seven quarters, it's gradually inching up and today it stands somewhere around 24, 25% of sales. So, going forward to fund this kind of growth which you are looking at, do you see further borrowings in this year or you have probably reached the peak of your borrowings?

Mithun Chittilappilly, Executive Director

I think we have taken couple of initiatives which you will see this working capital strain being a little bit reduced. One such step is that we are across the Board, increase the prices of our product like by 2 or 4% in different product categories. And we are offering a cash discount scheme for our distributors. So, that they will be still be able to get product at a small discount if they are able to pay within 10 days and things like that. This is a common system that is adopted by most of the companies, most of our competitors in markets outside South India. So, we are also in the process of doing the same.

So we will be entitling our distributors and dealers to pay on time. And even before it is due or pay as one's payment or something like that, where they will be offered instantly.

The second thing we are doing is, we are in talks with a couple of banks to start the channel financing activities. Many companies have successfully removed the working capital debt and burden from their books by introducing channel financing for their distributors. So, in this process what will happen is at least we are looking at initially maybe 20 to 25 crores for debtor books will be transferred to banks and the banks will be financing the distributors. So... and the rate of interest is also quite attractive and it's almost at the same interest that we are currently getting. So, I think due to this I think we should not be having too much of strain on the working capital.

Saurabh Das

Sure, sir. That was very helpful. I will come back in the queue for more questions. Thanks.

Mithun Chittilappilly, Executive Director

Okay.

Operator

Thank you. The next question is from the line of Sujay Mishra from Kotak India Focus Fund. Please go ahead.

Prakash Diwan

Good afternoon, sir. This is Prakash speaking from Kotak Mahindra in Dubai. Sujay and I are colleague.

Mithun Chittilappilly, Executive Director

Okay.

Prakash Diwan

My question is largely with regard to the products and just try to break it up by geography we have about 550 crores in South India.

Mithun Chittilappilly, Executive Director

Yes.

Prakash Diwan

And 160 crores in other regions, is that right?

Mithun Chittilappilly, Executive Director

Yeah 560... roughly 565 crores in South and 160 crores in the other regions, yes.

Prakash Diwan

If we look at 560 crores in the South, how much of that is legacy products and how much of that is new products? Could you just give us some idea given in percentages?

Mithun Chittilappilly, Executive Director

I think, well I don't have that.

Prakash Diwan

No, even a broad idea would be okay, in terms of percentages.

Mithun Chittilappilly, Executive Director

Yes, I will give you rough idea. Just give me one second.

Prakash Diwan

Yes sir.

Mithun Chittilappilly, Executive Director

65 crores

Prakash Diwan

No, I just want the get out the growth rate, you see what kind of growth rate you can get in South India and why do you perceive the need to actually go pan-India when South could have given you a weighted growth opportunity.

Mithun Chittilappilly, Executive Director

Yeah, I think we have grown in South India by about 47% in the last financial year. This has been mainly driven by the wire segment as well as some of the new products like fan and inverters and most of it driven, mostly driven... growth has been driven by the new product categories.

The reason we felt that we have to get outside South India was that we were getting to a point where some of our mature products like stabilizers, pumps, we were feeling that we were reaching near saturation levels like, for example, in the market like Kerala where we have... the company started out, I don't think we can expect any fantastic growth rate for products like pumps or stabilizers because we have reached near saturation levels in terms of distribution.

So, I mean so there is... this idea of getting outside South was mainly to looking at much more further into the future. Now, of course, we could have stayed back in South and tried new products, varieties, but I think you have seen that a huge change in the perception of people in our brand when we did that. For example, in the last couple of years we have been able to break into really tough markets outside South and there is a lot of synergy in operating in a pan-India level.

For example, if I am a company that is operating across India, I can use national platforms for advertisements which are actually more economical than individually advertising in every single stage and every single language and those kind of things. So, there is some kind of synergy in that way. And, of course, we are confident that our North Indian... I mean the North South operations will start delivering profits in the coming year.

Prakash Diwan

Fair enough. Just one more question sir... on the production outsourcing side, are all your products manufactured by you or is there a production outsourcing strategy?

Mithun Chittilappilly, Executive Director

We have both, for example, products like wires, LT cables and solar water heaters. These three products are entirely manufactured by us. Now we also make 10% of the production of fans, pumps and water heaters on our own. Rest of the products are completely outsourced.

We have a couple of ways of outsourcing. We have, for example, the stabilizer we follow a very peculiar pattern of outsourcing. We get it outsourced through a lot of SSI units. Because it's pretty much a low-tech assembling process. But each of these units are controlled by us, in the sense we have a quality engineer to the station at each of the unit. These units are... they buy the components at from the vendors that we have pre-approved at prices which we kind of negotiate. And whereas for other product they are all manufactured by OEM's.

The OEM manufacturers are a little different. They are core profit organization. They are individual entrepreneurs for other firms. And again here what we do is that, for example, even though our manufacturing of pump is outsourced, we tell them which foundry to buy, what type of casting at from. We arrange for... they have to buy bearings which are tested by from the vendors but we have specifying at a prices that which we have negotiated for them.

So, even though they are outsourced, we have a pretty good control in terms of quality in terms of confident level quality.

Prakash Diwan

Fair enough. In terms of production, what percentages the amount of outsourcing would be about half after turnover?

Mithun Chittilappilly, Executive Director

Yeah, I think half... I think if you take roughly 60% of the production, total sales volume will be outsourced. And -

Prakash Diwan

It's about 60-40.

Mithun Chittilappilly, Executive Director

Yes?

Prakash Diwan

It's about 60-40.

Mithun Chittilappilly, Executive Director

Yeah, it will be 60-40.

Prakash Diwan

Very well, sir. Sir, thank you so much for giving me this opportunity to speak to you and many congratulations on the numbers.

Mithun Chittilappilly, Executive Director

Thank you.

Operator

Thank you. Our next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Analyst

Yeah, thanks. Sir, if you could give us an idea of the value and volume growth during the year?

Mithun Chittilappilly, Executive Director

Okay; value and volume growth. Okay. I think in terms of stabilizers, volume growth has been... the value growth has been 36%, and volume growth had been... one minute. Volume growth has been roughly 30%. So, the volume growth for stabilizer is 30%, and 36% in wireless. And if you take for the wires business, the value growth is 17%.

Analyst

17?

Mithun Chittilappilly, Executive Director

17, yes. And volume growth is 35%.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

Because of the increase in price of copper, the average realization for this product has gone up. For the pump business, the value growth is 42% and volume growth is one minute. It's 3.4 lakhs pumps versus 2.4. So just... it's roughly... it's almost the same, it's 40%. So in pumps the growth volume and value is about 40%.

In terms of water heaters, the value growth is 62%, whereas our volume growth has been 65%. So, I think I have covered almost all the major products, is that fine?

Analyst

Yeah. And sir, if you could also give us the sense on the margins? If I look at your segment margins for the entire year, for the electronics division, margins have fallen for the year as well as for the quarter. Why is that so?

Mithun Chittilappilly, Executive Director

Yeah. The electronic division primarily comprises of voltage stabilizer segment. So it comes where there is a voltage stabilizers, UPS systems and UPS systems. So these are two products and inverters. So these are three products that comprises of the electronic segment.

So in terms of stabilizers segment, if you take the full year, our EBITDA margin was 17% the previous year, it has come down to 15.5%. In terms of inverter segment, our EBITDA is about 10%, but I don't have the figure for last year, it was a smaller product category. And whereas for the UPS division, the EBITDA has come up from 9% to 15%.

So, I think the main reason for the overall dip in margins in the electronic segment is mainly due to the dip margins and EBITDA margins from the stabilizer segment. It has been primarily due to two things. One is that if you compare with the previous year, we had a very subdued raw material price scenario and we were enjoying pretty high margins across product categories, whereas that is kind of come down now.

And another thing is that even in terms of stabilizer, our major growth has been driven by the air conditioner stabilizer segment, and traditionally we've always had the lower margin for this particular category, vis-à-vis our refrigerator stabilizer segment. So, that's another reason there is different margin in this particular product category.

Analyst

So you have sold more of air conditioner stabilizers vis-à-vis the refrigerator stabilizer?

Mithun Chittilappilly, Executive Director

Yes, yes. But if you take the total turnover of stabilizers, I would say maybe it was 30% only contributed by air conditioner stabilizers, and balance by refrigerator and television stabilizers, whereas in '10, '11, it is almost 50% in balance. So there is a huge jump in the turnover of air conditioner stabilizers.

Analyst

Okay. I mean this is just a thought, because we've been hearing the other consumer durable companies and there has been some pressure in the air-conditioners sales when I look at all over India. So, I mean I am not able to connect the two that why would the stabilizers sales go up when the AC sales are not picking up during the month of April?

Mithun Chittilappilly, Executive Director

I think if you are talking about air-conditioners sales getting effected, the air-conditioners sales have been effected primarily it is supposed to start to pick up by the February or March, the last financial year.

Analyst

Correct.

Mithun Chittilappilly, Executive Director

Whereas because of continuous rains in various parts in April and the general cooling down of weather, the air-conditioners sales have been affected, definitely. But our sales that we are talking about is from April of last year to March of this year.

Analyst

Correct.

Mithun Chittilappilly, Executive Director

So whatever pressure we are seeing on the sales figures for air conditioner, stabilizers will get reflected in the first quarter. But, what I have seen is that, although there was a little bit of a slowdown in sales in April, the May month has been picked up quite well. And I think whatever lag we had we should be making it up.

Analyst

Okay, okay. The other thing that I had was that the electrical/electro-mechanical segment has seen an improvement in the margins. Why was that so?

Mithun Chittilappilly, Executive Director

Yeah. The electrical and electro-mechanic segment consist of wires, motor pumps and electric water heater. If you take the wire segment, our EBITDA for the full year is about 8.2%, whereas in previous year, our EBITDA was almost it was negative because the previous year that is 9, 10... we've had some issues with copper prices crashing down and booking, and we have to write down inventory values. So, that is kind of affected our performance of that year. Whereas there has been a huge turnaround in the last financial year.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

And also both... so that is one reason. And another, so I think that is a main driver for growth in profitability for that segment.

Analyst

Okay. Also, when I look at your working capital, the inventory is shot up by around 44 crore during the year. I mean if you could explain that debtors I could understand you are being giving better credit terms to your distributors, but a

slight explanation on inventory would be helpful.

Jacob Kuruvila, Chief Financial Officer

Yeah. I will start with inventory.

Analyst

Yeah.

Jacob Kuruvila, Chief Financial Officer

Although, on the page when you see that there is an increase of over 45 crores from 98 crores of last year should have grown to 140 crores, a total increase of 45 crores. But when you analyze into various element, you will find that there is an raw material increase of

7 crores. Actually raw material increase, two things are there; our production from our manufacturing units has increased during the period; and also certain raw materials like copper, the price has gone up. So, the 7 crores raw material increase is not a peak rate, compared with the production which we have got during the year.

In the socketing process also the same thing has happened. Whereas it was 9 crores last year, it has gone up to 15 crores, about 6 crores increase. This increase also basically due to two reasons corresponding the production increase in our various manufacturing units and also the price increase of our raw materials.

The only about 27 crores is the increase in finished goods. Finished goods have gone up from 71 crores to 97 crores. But if you see the sales, average sales during this period, the average monthly sales for the last quarter have been grown up about 56 crores, whereas rise is only about 36... I mean the 56 crores in there, whereas rise in inventory, it would have been only 36 crores. So actually, this is not something to be worried about. It is when you see in the different elements, then you analyze into various segments it is a normal degrees, not an SP degrees.

Whereas you say that 100 -- also same thing can of course would be zero. Our average sales for the last quarter of 2009-10 was only 47 crores, whereas current year the annual average monthly sales have been to the tune of 74 crores. So, almost this translates into almost the same number of the year. We have about 45 days is our norm operates, unless it is number of days credit for the last quarter of FY11 it is only about 50 days inventory. So, there is not steep increase in fundamental debt as we may have feel the deposit.

Analyst

Okay. But if I had to understand 60% of your output is outsourced, then why would there be a proportionate increase in say an inventory and debtors this year. Because, a lot of leases there with you to pick up the finished goods from suppliers who are manufacturing for you?

Mithun Chittilappilly, Executive Director

Yeah. Actually this year I would say that split is 40, 60. But in the previous year this was normally in the region of 30 to 32% versus 68%. So, only last year our manufactured goods percentage has become secured 40%. Before that it was somewhere in the range of 32, 33%.

Analyst

Okay. And then the last

Jacob Kuruvila, Chief Financial Officer

The manufactured goods to the total sales have increased tremendously in the last year.

Analyst

Okay. And the last question from my side, I mean given that you are incentivising the distributors on the Northern side of India. I mean what are your thoughts on a push strategy versus a pull strategy, while entering a new territory and the sustainability of the same?

Mithun Chittilappilly, Executive Director

Yeah, I think initially when you enter into a new market, so like when we enter into markets like MCR and Punjab and UP, these are all new markets for us. When we initially entered, of course, it was a push strategy. Our idea was that initially we have to make sure that product does get out into as much retail sales as possible.

And we have to incentivise the trade to push the product by giving them better margins and better credit facilities. But in the last couple of years, we have seen a huge turnaround in the perception of our consumers. We are getting better consumer inquiries and consumer walk-in. We have started getting feedback that the consumers have started asking for our brands vis-à-vis one some of the other popular brands that are there.

So, I think this is a slow painful process of building a brand in a new market. It is not going to come easy, it is not going to come fast. So, I think we will see this kind of pressure on in terms of our margins from new markets, in terms of our working capital, strain on giving them more credits for at least one or two more years. But we have started some of the process of reducing our credit period to some certain areas like for example you had good response for our products both in UP and Punjab. So, we will look at now reducing our credit period because we do feel that the consumers will buy our products even though it is... even if trade is not incentivised as much as we used to incentivised now.

So, I think it's a slow process, but I think it will take us about two, three years in turning this market around. And why to go outside South India is that, I mean, of course, we wanted to grow. We have an ambition to have a pan-India presence and now we are happy to announce that we do have that. But we... in two years time we will have a profitable pan-India presence as well.

Analyst

Okay, fine. Thank you and good luck.

Mithun Chittilappilly, Executive Director

Thank you.

Operator

Thank you. The next question is from the line of Jasdeep Walia from Kotak. Please go ahead.

Jasdeep Walia

Sir, you've talked about the post strategy while entering into new markets, where you give wire credit to your supplier chain. But are you also kind of offering similar quality products at lower prices. Is that also the strategy?

Mithun Chittilappilly, Executive Director

I think, for example, yeah we are not... we have gotten some fighter brands or fighter models for our new markets. For example, if you talk about some we have studied the market conditions in the new market that is, especially the North and West market of India. And we found out that our competitors was... we complete with them in South, our offering much more is cheaper products than they are offering in other Northern part of India, because I think the consumers are little more value conscious and price conscious than the consumers in the South. So we have developed a new range of products, especially suited for the new market.

So in certain cases yes we are offering different product, these products are probably not sold in Southern part of India because of pricing is different and the way these gone up for doing the pricing is also little different by offering better margins for the regions. So, yeah, in some cases we have done that, but in some cases it is the same product that we sell in South and North, there is not much... there is no difference.

Jasdeep Walia

Sir, could you give me any example of like you would have target selling fans in North India last year.

Mithun Chittilappilly, Executive Director

Yes.

Jasdeep Walia

So could now... I mean fans it's not possible to differentiate much as compared to the existing products in the market.

Mithun Chittilappilly, Executive Director

Yes.

Jasdeep Walia

So, did you try to push the production into market by offering similar products at a low price or -

Mithun Chittilappilly, Executive Director

Actually I don't think of products like fans, I don't think. I think the cheapest fan branded company has in the market is by Bajaj.

Jasdeep Walia

Right.

Mithun Chittilappilly, Executive Director

Bajaj has a brand -

Jasdeep Walia

Right.

Mithun Chittilappilly, Executive Director

I don't think we have a range of fans that is as cheaper but have actually to be frank.

Jasdeep Walia

What is your average realization for fan?

Mithun Chittilappilly, Executive Director

Our average realization for fans will be somewhere about 750 to Rs. 800 with this, okay, per unit.

What we did was we, of course, but Bajaj has got a range of fans where they have an economic segment, they have a mid-segment and a decorative segment. And we enter only the mid and the decorative segment and we are... what we have done with that. We are in the decorative segments, you are right what we have done is where Bajaj is probably earning more margins in that particular product category, we have decided to offer similar quality products at a slightly cheaper price. That is something that what we have done in case of fans.

Another thing in fan is that there is huge opportunity in the fact that there were a couple of brands like Ortem, Polar. These two brands were kind of dying and they were not doing too well because Polar due to some financial problems and quality issues. Ortem because generally they were a very conservative company, there did not expanded much. So these two... so there is a huge gap in the market when the retailers were not happy these two brands. So, there was all scope from the market to get in. So, that is the reason we got into this product, and we have been able to and these two branch not being doing too well as help us.

Jasdeep Walia

Understood. And are you planning to enter new categories this year?

Mithun Chittilappilly, Executive Director

Actually looking at three new product categories to be getting into the next five years. However, our immediate focus is on improving the profitability and margins of our new products, and getting them up into a critical month. So, that is our immediate focus. I think in the next financial year, we will be getting into a one more related category. The chances are that, we will be... it will be in the consumer durable sector category itself.

Jasdeep Walia

Okay, consumer appliances.

Mithun Chittilappilly, Executive Director

It will be appliances, smaller appliance of category. Yes.

Jasdeep Walia

That would be in fiscal year '13?

Mithun Chittilappilly, Executive Director

Yeah, we have already started preliminary work on it. So, I think we are... we might, we are looking at a launch date before this financial year. But I think as far as submission volumes and in terms of the property sales will come in early in next financial year.

Jasdeep Walia

Understood sir. That's all from my side. Thank you.

Operator

Thank you. The next question is from the line of Umesh Gupta from Reliance Wealth Management. Please go ahead.

Umesh Gupta

Yeah, hi. Just two questions. First, could you give a broad break-up of your sales within your main category wires, pumps, heaters and stabilizers?

Mithun Chittilappilly, Executive Director

You want a sales break-up within the product category?

Umesh Gupta

No, broadly of the main category first. I mean what percentage does these pumps, heaters and stabilizers and wires.

Mithun Chittilappilly, Executive Director

Okay So I think out of our total sales of 726 crores, our stabilizer sale is 166 crores.

Umesh Gupta

Okay.

Mithun Chittilappilly, Executive Director

Okay wire is 208 crores.

Umesh Gupta

Okay.

Mithun Chittilappilly, Executive Director

Pump is 121 crores. Electric water heater is 60 crores.

Umesh Gupta

Okay.

Mithun Chittilappilly, Executive Director

Fans is 53 crores.

Umesh Gupta

53 okay.

Mithun Chittilappilly, Executive Director

And the LT Cable was 41 crores. So this was the main product categories.

Umesh Gupta

LT cable is 41?

Mithun Chittilappilly, Executive Director

41, yes.

Umesh Gupta

And wires is 208.

Mithun Chittilappilly, Executive Director

Yes.

Umesh Gupta

So, what is the difference between these two?

Mithun Chittilappilly, Executive Director

The wire is primarily house wiring or building wire and cable.

Umesh Gupta

Okay.

Mithun Chittilappilly, Executive Director

And LT cable is low tension cables whereas primarily use for underground wiring.

Umesh Gupta

Okay, okay, point. Second in the rest of India market, which is about 160 crores of sales, break-up would be a similar in terms of product category or is it different than rest of India market than South India market?

Mithun Chittilappilly, Executive Director

It would be slightly different, but you can also about rest of India markets, stabilizer would be maybe contributing 30% of the total sales, wires contributing of about 25%, contributing another 25% and the fans contributing maybe 10%. So, rest of India sales if you look at it even the contribution will be slightly different because we are not actively marketing all the products there. It's mainly driven by the top-floor products.

Umesh Gupta

Okay. And in the rest of India what are the main geographies right now in terms of higher sales?

Mithun Chittilappilly, Executive Director

We have got good traction in sales in three years of the Northern markets.

Umesh Gupta

Yeah.

Mithun Chittilappilly, Executive Director

Now actually four of the Northern markets that is your NCR, UP, Punjab and Rajasthan, these four markets are doing reasonably well and they are turning... most of them profitable as well. Whereas we had pretty good entry also into the state of Maharashtra. Maharashtra is also an important market for us. Whereas the other... so in Orissa. Apart from these, these are the top five markets where we are getting good traction.

Umesh Gupta

So that remaining like MP, Gujarat and others, would you be getting into those markets in the near future or how the scenario there?

Mithun Chittilappilly, Executive Director

We are already present in those markets but they are not got the start. At high... They are not delivering at high volumes as these other markets like UP, Punjab and Rajasthan and MCR.

So, of course we are already present in Gujarat, but in Gujarat we have a slight disadvantage because it is a home of most of the... it's a very competitive market, and the margins are... most of the companies are operating a very less margin. And being a industrial hub, a lot of local players also for there. But in Gujarat we have a slight disadvantage because it is a home of most of the -- it's a very competitive market, and the margins are--most of the companies are operating a very less margin and being a industrial hub, lot of local player for there. So I think the other markets like Gujarat and the East market like Calcutta, these two main markets West Bengal and Gujarat we will be hopefully breaking in. We are already present but hopefully these markets also will pick-up in the coming year.

Analyst

Okay. And in terms of your brand positioning. I mean obviously South India is a main market. So could you give us a sense how is your brand position between South India and these four markets which you have entered now in terms of may be a world ranking not exactly? But where do you stand in these markets vis-à-vis South India.

Mithun Chittilappilly, Executive Director

I think for our main, one of the main products like stabilizers, we do not have much of competition in terms of national players, so we can safely say that in South, we have a pretty fine brand positioning and our prices are much more higher than our local competitors.

And in Northern part of India, although there are some regional brands, again pricing and positioning of the product is much higher than these local players.

In terms of wires, in South India our pricing and positioning is very close to I would say Finolex and Havells like the price difference between us and these two players is hardly 1 or 2%.

Whereas in new markets like outside South India, I would say our positioning is probably 2 to 3% less than products like Havells or Finolex.

So of course in the new markets our pricing and initial positioning, for a pricing point is concerned, as we offered to the retailers it's definitely slightly on a less side than compared to South.

Analyst

Okay. And in a scenario where the raw prices starts falling. Would you be passing on the prices or you think that you will be able to hold on to your prices?

Mithun Chittilappilly, Executive Director

I think certain products like stabilizers and pumps, I think we will not be reducing the prices. But I think in certain products like wires we have see the tendency by the other players in the market to cut prices when there is a significant fall in copper prices.

So I feel that we will have in certain products like wires, we might have to pass on the benefits, even though it's not immediately but may be in couple of weeks time to the consumer because there is a tendency in the market when prices are falling, there is a tendency for the retailers and builders to stop purchase of raw materials like wires because they are expecting a further fall or they are expecting a better pricing a little later. So I think we will have a slight effect but I don't think it will be huge effect on margins.

Analyst

And can you give you some breakup of EBITDA margins between your different categories wires of got 8% vis-à-vis negative last year and I missed on the other products, did you give that.

Mithun Chittilappilly, Executive Director

Yeah for stabilizer our EBITDA is about 15.5% as against 17% last year.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

For wires our EBITDA is over 8.2%.

Analyst

Yeah.

Mithun Chittilappilly, Executive Director

As against negative 0.9 last year.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

In terms of pumps our EBITDA is about 7.5% as...

Analyst

How much?

Mithun Chittilappilly, Executive Director

7.5,

Analyst

Okay

Mithun Chittilappilly, Executive Director

As against 7.10% last year.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

Water heaters our EBITDA is 12.3% as against 16% last year. These are for the main four product category.

Analyst

And fans?

Mithun Chittilappilly, Executive Director

In fans, our EBITDA for 2010-11 is 2.54% as against minus 1.5% last year.

Analyst

Okay. And one last question on your margins in your South India market and the other market, which are currently at break even, so which are the markets you expect to reach your South India margins this year and on how will they pan out

Mithun Chittilappilly, Executive Director

Yeah, it is probably unrealistic to assume that we will get the same margins in the current year itself the new markets. Even if they're doing well in terms of volume. So, we've for example we've broken even in certain markets like UP, Punjab and Rajasthan, we've achieved and NCR we've achieved near very we've achieved breakeven levels.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

So, upto these branches we slowly we will be slowly improving their profit margins and we'll start delivering a little bit of profit. But, I don't think that percentage will be really comparable to what margins we're making in South, because being in new branch we're having a lot of overhead expenses like rent and higher salaries, because to get good quality people to in a new market to market a brand relatively unknown you have to offer better compensation packages to attract good talent.

So, definitely it will take a little more time for us to breakeven. But I will not to deliver the same margin, but I think two years time is what we envisage the North Indian that is a non-South market giving the same similar product margins that as South India. So two years.

Analyst

Okay. And what would be the CapEx for you this year, next year. What kind of recurring CapEx would be there in the company?

Jacob Kuruvila, Chief Financial Officer

Yeah, actually we are going for a new solar water heater factory in in Tamil Nadu. Where we had taken a piece of land, land from the Tamil Nadu government and it is on long lease. We are setting up a solar water heater factory with a new technology there. We are going for a technology which is extend on the hard water we'll not --getting with quality of water. So, we are spending about 8 crores on this factory. Along with that we are also going to complete our IPO projects to major godowns in Hubli and Vijaywada, each we are spending about 4 crores each. Then we are also been expanding some of our godowns and factory facilities in Bangalore, in Palghar and also in Kaloor.

Therefore, we will be spending about 4 crores on that. So a total of about 20 crores we are planning CapEx during this current financial year.

Analyst

So all in are expansion. For your existing facility, you don't need much of CapEx?

Jacob Kuruvila, Chief Financial Officer

Yeah existing facilities also we are having an expansion plan in our LT factory where we are going--we want achieve economy of scale. So we are going for a little expansion there will be possible for about above 1.75 crores. And others are all expansion for our storage facilities, since our volume significantly need that facilities, mostly increase in our storage facilities and our existing godowns.

Analyst

Okay, thank you. Thanks a lot.

Jacob Kuruvila, Chief Financial Officer

Thank you.

Operator

Thank you. The next question is from the line of Bhavik Mehta from -Capital. Please go ahead.

Analyst

Hello, sir.

Mithun Chittilappilly, Executive Director

Hello, yes?

Analyst

Sir, my first question would be pertaining to the EBITDA margin. You gave the numbers for stabilizers, wires, pumps, water heaters, solar heaters and fans.

Mithun Chittilappilly, Executive Director

Yes.

Analyst

Can I know the EBITDA margins for LT cables?

Mithun Chittilappilly, Executive Director

Yeah. LT cable, we have still not broken even in that product. Our EBITDA margins for 2010-11 is roughly negative 6.5% as against negative 17% the year before.

Analyst

Okay

Mithun Chittilappilly, Executive Director

So we can see that the resources have come down considerably and we are happy to note that in March and April we have had positive contribution coming. So I think with a little bit of line balancing that there are certain problems in some of the machines.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

That is sorted out with this additional investment of 1.7 crores, I think we should be achieving breakeven values and even profit levels.

Analyst

Okay. And in the UPS segment what would be the EBITDA margin?

Mithun Chittilappilly, Executive Director

In UPS segment our EBITDA margin is 16% as against 9% last year.

Analyst

Okay. And sir can I get the gross margins for all the products for the year?

Mithun Chittilappilly, Executive Director

Gross margins, I am sorry I don't have the figures with me.

Analyst

Okay. So sir can I at least get the price points and the raw material prices for every product?

Mithun Chittilappilly, Executive Director

Well I have I can give you, I mean like, I don't have, I have the cost of good sold on an overall basis.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

But I don't have the...

Analyst

The break up you don't have.

Mithun Chittilappilly, Executive Director

I don't have the break up, I don't have the... ..cost of good sold for percentage for different products.

Analyst

Okay, okay. And can I get there is a different sorry I'd like to know the seasonality in your inventory that is what inventory days would you maintain in different quarters. Can I just get a break of that quarter wise throughout the year?

Mithun Chittilappilly, Executive Director

Yeah. I think for us typically quarter one and quarter four is good quarters and quarter three and quarter two are not that good. So actually in quarter two and quarter three the inventory level will go up slightly, which would further comedown by the end of the season that is end of quarter one.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

So inventory on an overall basis our inventory days are our average sales last year is about average sales for last quarter is roughly 75 crores per month.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

So on that basis we would be keeping roughly 45 days of finished goods inventory. So and our inventory is only in finished goods inventory was of 91 crores. So which means that our average inventory levels is less than 1.5 months.

Analyst

Okay average inventory is level than 1.5 months?

Mithun Chittilappilly, Executive Director

Yes. This is for finished products.

Analyst

According to different seasons as in Q1 and Q4 what would be the inventory days in Q3 and Q2 what would be the inventory days? Can you give me?

Jacob Kuruvila, Chief Financial Officer

Yeah when we compare as on March 31st finished goods was 97 crores.

Analyst

Okay.

Jacob Kuruvila, Chief Financial Officer

Against average monthly sales of that product 74 crores. So taking that into consideration it will be somewhere like.

Analyst

1.2 months?

Jacob Kuruvila, Chief Financial Officer

Yeah. Of course something at around 40, 45 days inventory would be.

Analyst

Okay. And in Q3 and Q4 something around 10 days more than this figure?

Jacob Kuruvila, Chief Financial Officer

Q3 and Q1.

Mithun Chittilappilly, Executive Director

Q3 and I think, yes Q3 and Q4 it should be more or less, it will be like, it will be like another five or seven days more because of the, there will be some piling up of stock due to off season.

Analyst

Okay. And sir, one more question was regarding the price increases, what, how much price increases have you done in this financial year?

Mithun Chittilappilly, Executive Director

I think we've effected various price increases for various products.

Analyst

Sir can you give me a breakup of that sir?

Mithun Chittilappilly, Executive Director

Yeah, okay. So, well I think, I don't know, I think see for example for wires our volume growth has been 35%, where as our value growth has been almost 70%. So, that means our value has jumped up so in the net, in case of wires over the last one year, we would have almost increase the prices by more than double. Our average realization have almost

gone up by more than double.

So, I think for roughly it is different for different products. But I don't know, I mean like if you're asking for each product what was the price increase that is effected little difficult to say. But I can say that for example for stabilizers we've increased a prices between 6 to 8% in the last quarter, for wire we have increased it by about 6 to 8% in the last quarter. For water heaters again we have increased the prices by 8 to 12% in the first quarter of this year.

Analyst

Water heaters.

Mithun Chittilappilly, Executive Director

Water heaters. So, I think that would mean we have affected various price increases in various varying degrees taking into consideration raw material cost and market conditions.

Analyst

Okay. And what sort of trajectory do we see in price increases as well as in the volume growth in the coming year?

Mithun Chittilappilly, Executive Director

I think in the coming year, now we are seeing a cooling off of raw material prices. So, I think maybe this trend might continue for sometime. So, we may not have much of price increases in the first few months of the current year. But I think the raw material prices will eventually inch up. So, I think depending upon we'll have to say because we are dealing with very volatile metals like copper, where it is little impossible to almost predict what is going to happen with the prices. But I think, we are looking at least 30% volume growth on an overall in each product category.

Analyst

Okay. And sir you have given the value and the volume increase for stabilizers, wires, pumps and water heaters

Mithun Chittilappilly, Executive Director

Yes

Analyst

Can you give me the value in volume increase for the rest of the products.

Mithun Chittilappilly, Executive Director

Yes So if you take say LT cables our volume growth has been 130%.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

And our value growth has been 160%

Analyst

Okay.

Mithun Chittilappilly, Executive Director

Okay.

Analyst

Yeah. And in the UPS and UPS Fans and inverter segment.

Mithun Chittilappilly, Executive Director

Yeah. In the UPS segment our volume growth has been about 17% and our value growth has been about 60%. So in this particular product category our average realization of the product just slightly come down.

Analyst

Okay. 17% in volume growth right?

Mithun Chittilappilly, Executive Director

Yes. Sorry our volume growth has been one minute, volume growth has been 60%.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

And the value growth has been 67%. So almost similar volume and value growth for UPS segment.

Analyst

Okay and fans and inverters?

Mithun Chittilappilly, Executive Director

In fans the volume growth is about 95%.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

And our value growth has been 110%.

Analyst

Okay.

Mithun Chittilappilly, Executive Director

In terms of inverters, it's volume growth has been almost--I don't have the volume growth for inverters. But the value growth for inverters is 146%.

Analyst

146%, okay. Thanks a lot. That's it from my side and congratulations on a very good set of numbers.

Mithun Chittilappilly, Executive Director

Okay.

Analyst

Thank you.

Operator

Thank you. Our next question is from the line of Kunal Mehra from NV Capital. Please go ahead.

Analyst

Gentlemen, my question is regarding the expansion into the Northern markets. In all my conservations with your competitors, the key success factor that they pointed out is the dealer distributor network. Given the competitive intensity, I mean will be interesting to hear how you plan to acquire a an exclusive network of dealers as to the extent necessary. And the requisite network effect also of dealers.

Mithun Chittilappilly, Executive Director

Okay.

Analyst

Also would be good if you can give me some color of what are the numbers you're planning to hit? Because when you do your breakeven for your branches, your breakeven models got to presume a certain dealer network number. It'll just to be good to get a feel of where you are relative to that?

Mithun Chittilappilly, Executive Director

Yeah. I think as far as exclusive our distributors are concerned, we currently have about 230 exclusive distributors. And out of these 230, our 150 of them are in South India, and about 80 of them are in the new markets. So, roughly there are about five or six exclusive distributors who are attached with each of new branches.

Now, of course like you said building-up a distribution and dealer networks is not a very easy task, but we have done this in a very systematic manner in Southern part of India. Now coming to the Northern part of India, it is surprising to note that I mean of course it is difficult to build a dealer and distributor network. But the good thing about is many of the product categories we are in, the market itself is growing and there is a lot of gaps in the market. For example in the North you have Havells, which is one of the leading brands in wires. Then after Havells in that product category actually Finolex does not have much of market share in North. So, there is a huge gap for a second and third spot over there. Similarly most products we've seen that although there are really big competitors, there is scope to enter in the market.

And this is the reason that for example our sales volume from North side market has grown over 130% in the last year, and we will be again doubling this from 160 crores to 300 crores next year. And I am pretty sure that out of this 300 crores, next year what we are getting it, we will be definitely not more than breaking even and it will start delivering profit.

Analyst

Fair point. There is one assumption you maid there, which I think is the critical assumption which is as along as there is strong growth in the underlying market. I am with you that the dealers and distributors would like a number two and three player, at least for their negotiation with the market leader. Sorry please go ahead.

Mithun Chittilappilly, Executive Director

Yeah, I think that is one assumption and second thing is that apart from Havells, I have not seem any of the other players like Finolex or okay Bajaj to some extent doing actively building up their brand through various activities. I have seen they've been brand building activities pretty muted. So of course there is a scope for second or third players to come and stir the market and get some market shares out from them. Of course the market is growing, but it's definitely not growing at 100%. So we are taking somebody's market share, in those markets.

Analyst

Fair point. If I then look at your targets, for your non-South exclusive distributors, one year, two years out. What is those, and I am fine even if you give me ranges, I'm just, what are those numbers you are thinking about, does 80 crore to 160 and then 200, or is it something else in order back there?

Mithun Chittilappilly, Executive Director

I think what we have decided is that we have now identified may be about two or three really key distributors. And about 25 top dealers in each branch. So right now we are actually in process of doing a lot of dealer engagement activities by, we are trying them, these are people who have done on a average of maybe 1 crores or 50 lakhs in their area depending upon the market.

So now what we are trying to do is that, so we have a network of, we have other network, but we have a strong network of may be 20 really prominent dealers attached to each branch. So that will be roughly 200 really big dealers who are doing good volumes for us.

So our strategy is that in three years time we will further groom these dealers who are pretty capable of growing and we will be, when they achieve a particular critical point, we will be converting them into distributors. So like you said in that case we are potentially going to have upto almost 80 distributors, we will be easily doubling the number of distributors. But they may not be exclusive, there will be, some of them will be direct dealers of channel partner, but we'll be definitely doubling this number next year.

Analyst

Okay. One of the things that if you talk to distributors and even dealers that they look for other than obviously good product, good working capital, good credit terms and all is a fair amount of investing in advertising and you need it.

So, which is why, when you upfront said, are you targeting 35 crores in advertising this year instinctively that number seems small. And I'll tell you why, because if I layer on new geography and I layer on that new product launches, also pushing the new products that you're currently launched into higher profit zones. I would imagine that given the growth trajectory operating leverage from advertising may not come through in fiscal '12 at least. Because, you're number could be as high 40, 45 crores also, if the market requires it?

Mithun Chittilappilly, Executive Director

Yeah. I can see, I think one wrong perception lot of people make is that many companies spend much less on advertising spend and then consumer generally thinks. Like for example we know through our media buying agency that we know for a fact that Havells spends roughly 80 crores on advertisements and comparing to the sale of about 2,600 crore it's about 2.5%. Many other companies they spend very little, especially I mean like the people like Samsung and LG of-course they spend huge money.

But if you talk about the electrical sector and the small appliance sector many companies spend far less money than what we are going to spend this current year. So definitely I think what we like to call it as a share of voice, we will be getting a huge share of voice in our sectors in the product categories we operate in.

Analyst

Fair point. That will be helpful. Thank you for your time. I appreciated.

Operator

Thank you. The next question is from the line of Ruchita Maheshwari from Nimal Bang Securities. Please go ahead.

Ruchita Maheshwari

Hello?

Mithun Chittilappilly, Executive Director

Hello.

Ruchita Maheshwari

Yeah my questions have been answered. Thank you.

Operator

Ms. Maheshwari, do you have any questions?

Ruchita Maheshwari

No, my questions have been answered.

Operator

Thank you.

Ruchita Maheshwari

Okay.

Operator

The next question is from the line of Ritesh Chaddha from MK Global. Please go ahead.

Ritesh Chaddha

Hello sir. Just on the previous question, if you could help us understand, you said there are 230 exclusive distributors.

Mithun Chittilappilly, Executive Director

Yes.

Ritesh Chaddha

And then what is the dealer network that we have and how does it compare with companies like Havells and Bajaj? That's the only question I have.

Mithun Chittilappilly, Executive Director

Yeah. I think this is a little tricky question. I'll tell you why. I might have a I can probably have 20,000 dealers, but these dealers are only selling each dealer is selling only Rs. 5,000 worth of product a year. I cannot really call them my,

really A class dealers we were talking about flinch dealer. So, this is a really tricky question, but we have a figure which our dealer network is roughly about 11,000 dealers as of now. And this is both taking South as well as North side markets. And they serviced by these 230 dealers, 230 distributors.

Ritesh Chaddha

Okay. And when you said branches, branches and distributor are the same or then it differs in your term.

Mithun Chittilappilly, Executive Director

We have 22 branches all across India, for example in Kerla we have one branch the small state. In Karnataka we have two that is a Hubli and Bangalore. In Chennai I mean in Tamil Nadu we have three Madurai, Chennai and Kandarpur. In Andhra Pradesh we have two in Vijaywada and Hyderabad, and we have each one branch each and most of the other new states.

So these are the branches which are operated by us and we have usually have a stocking point and billing station and all those kinds of things. And a market team based out of a branch.

Now they are in turn giving goods to two type of customers, one of these 230 exclusive dealer distributors, who in turn service that smaller dealer network, but there are certain large dealers who are directly supplied by us from our branches. So those are called channel partners. So I hope you have got the-.

Ritesh Chaddha

So layer is basically branches than branches serving to exclusive distributors and channel partners, and they are both indirectly serving to the reach point which is a dealers.

Mithun Chittilappilly, Executive Director

Yes, correct.

Ritesh Chaddha

So at the reach point level V-Guard has 11,000, what is it for Havells and Bajaj if you have the number.

Mithun Chittilappilly, Executive Director

I have heard a lot of figures floating in air, but like I said it's very -- if a dealer fills us a dealer registration form and gives it to us and we are giving him a dealer certificate, technically that makes him a dealer.

But like I said I am not worried about the number of dealers that are there in our system. I am more concerned about like I said at least the top 20 dealers like our payments to convert top 20 dealers of all these new branches that we opened into 1 crores plus category. So that each of these dealers will be contributing more than on an average was more than a crore of business in a year for us. So I think, so we are concentrating more on developing potential large dealers into 1 crore, 2 crore category rather then concentrating on reaching upto to a lot of smaller dealers. So I hope making myself clear.

Ritesh Chaddha

Okay. Lastly you all gave the outlook on the revenue side what would be your outlook on the margins for the two years or next year?

Mithun Chittilappilly, Executive Director

We are looking at our revenue growth of 35% in the next at lest next couple of years to come. As far as margins are concerned we have had an overall EBITDA of about 10% the last financial year. I think we should be able to continue that, we should be able to hold on to those margins.

Ritesh Chaddha

Many thanks to you and all the best to you sir.

Mithun Chittilappilly, Executive Director

Thank you.

Operator

Thank you. The next question is from the line of Sunil Jain from Nirmal One Securities. Please go ahead.

Sunil Jain

Sir I got two three questions. Hello?

Mithun Chittilappilly, Executive Director

Yes.

Sunil Jain

Sir about this stabilizer margin which is come down in this particular year from 17% to 15.5%, how is the outlook in this particular segment which is being a large segment for you?

Mithun Chittilappilly, Executive Director

I think in the financial year '09, '10 we were enjoying a really good margins for stabilizers because of subdued raw material prices. I think going forward, for stabilizers we should be able to have an EBITDA of about 15%, I think that would be realistic. I don't think it will go back to the 17% level because our newer branches that we've started operations, their volumes to the total volume of sales also will increase. So I think even though if we are able to pass on the entire raw material price hike to the consumer, still the margins will be around 15%. So 15% EBITDA is something for stabilizers what we foresee.

Sunil Jain

Okay. And sir you said you said, you will be maintaining the margin in this current year. On the other hand the other part of the rest of the India is, I think breaking even or may be making some profit.

Mithun Chittilappilly, Executive Director

Yes.

Sunil Jain

So are we seeing some decline in the margin in Southern region?

Mithun Chittilappilly, Executive Director

No, see declining in margins in South. Actually what will happen is that we will be making like I said a little bit profit and those kind of factors will come into place. But we will also be stepping up our promotional strength in these markets.

We are looking at these markets for a long haul. So we are not in a very huge hurry to take the money or so even if these branches are being profitable, we will be pumping in a lot of money into these markets for better dealer engagement activities, promotional schemes, further fuel the growth.

So I think because of all that--that's why I said that there might be some uptick in the margins in the coming few years, but we'll be stepping our investments also in these markets. So I think more or less, we should be able to maintain at around 10%.

Sunil Jain

Okay. And is there any thinking out of management on any acquisition side of any brand or any manufacturing facility or something like that?

Mithun Chittilappilly, Executive Director

As of now we are very quite comfortable with our existing setup and facilities and set of vendors. But if some opportunity does come out and at a fair value and if it is a good fit, we will definitely take it, think about those things seriously. But we are not like hungry to acquire, I mean only if some opportunity come our way, we'll do it.

Sunil Jain

And, sir last quarter about you had said you had increase price in the water heater in the current year.

Mithun Chittilappilly, Executive Director

Yes.

Sunil Jain

Any other segment you had increased the prices sir in the current...?

Mithun Chittilappilly, Executive Director

I think almost all product categories we have increased prices that almost all the input cost have gone up.

Sunil Jain

No I am talking about post 31st March, any price increase which has happened?

Mithun Chittilappilly, Executive Director

Most of the other product categories we have already increased the product prices before 31st March.

Sunil Jain

Okay.

Mithun Chittilappilly, Executive Director

Water heater being a product that is sold in winter month we were waiting for the financial year-end, because during off season it is difficult for the product category to increase prices. But we have done so that is why that particular product category of price increases have been affected in April.

Sunil Jain

Okay, otherwise no.

Mithun Chittilappilly, Executive Director

Otherwise most of the product categories we have already affected price hike in February and March.

Sunil Jain

Okay the only benefit which can come is may be because of reduction in the raw material cost of copper?

Mithun Chittilappilly, Executive Director

Yeah now there a slight cooling off of the raw material prices so there we will hopefully see some benefits, but I think we have seen that, we will not be a first ones to do it. But some of our competitors if they do slash their prices, we will have to go ahead and do the same.

Sunil Jain

Okay, sir. Fine, thank you very much sir.

Operator

Thank you. The next question is from the line of Prashanth Tapse from Mehta Equities. Please go ahead.

Prashanth Tapse

Hi, Mr. Mithun

Mithun Chittilappilly, Executive Director

Good afternoon Prashanth.

Prashanth Tapse

Good afternoon sir. How are you sir?

Mithun Chittilappilly, Executive Director

I am good, tell me Prashanth.

Prashanth Tapse

Many of my questions were answered. Last question from my side is on capacity utilization, on the wire segment. Are you running 100% right now in your capacity?

Mithun Chittilappilly, Executive Director

No, in the wire segment we are running roughly about 60, 65% of our capacity in wires. So we are not running at full utilization levels as yet.

Prashanth Tapse

Okay. So you have the capacity to run at 100% right now.

Mithun Chittilappilly, Executive Director

Yeah. I think for wires, we will need only capacity addition in the next financial year.

Prashanth Tapse

Okay. So this 65% was for the full quarter or full year?

Mithun Chittilappilly, Executive Director

I am talking about the whole year.

Prashanth Tapse

Whole year.

Mithun Chittilappilly, Executive Director

Yeah. Even in the quarter it goes roughly about 60%, 65%.

Prashanth Tapse

Okay. That was my small question, everything was answered.

Mithun Chittilappilly, Executive Director

Okay.

Prashanth Tapse

Sure, thank you. All the best.

Operator

Thank you. The next question is from the line of Natesan B from Spark Capital. Please go ahead.

Natesan B

Good evening, sir. Natesan.

Mithun Chittilappilly, Executive Director

Good evening, Natesan.

Natesan B

Congratulations, sir on a fantastic set of numbers. Sir, just couple of touch points. Sir, what was the add expenditure and the dealer discounts in absolute amount for the previous fiscal?

Mithun Chittilappilly, Executive Director

For the last fiscal, our add spend plus the ATM and DTL activities was roughly 25 crores, because that was roughly 5.5% of the turnover of previous year. Out of this 25 crores we have spend in roughly 8 to 10 crores on DTL activities. So roughly I think we have spend about 16 crores in mass media communication, that is television and newspapers.

Natesan B

Okay. And how much dealer discounts?

Mithun Chittilappilly, Executive Director

The dealer discounts is not included in this budget. This budget only includes 8 to 10 crores, which we have spend for DTL activity includes in-shop branding, dealer needs, plumber needs, electrician needs, and dealer engagement activities like conventions or bringing them, taking them for tours and those kind of activities.

So those kind of relationship building activities but -- and sometimes we also do joint promotion with the dealers for example if they releasing a full page some of the retailers releasing full page add in newspaper like sales and you see a lot of brands at the bottom, which is mentioned. So these are all joint promotional activities which is done by dealers.

Natesan B

Okay.

Mithun Chittilappilly, Executive Director

This particular budget, only includes that. Dealers discounts is a separate thing it is not included in this budget.

Natesan B

Correct, no what I want is the amount that is for FY11, what are the dealer discount amount?

Mithun Chittilappilly, Executive Director

Okay, dealers discounts? Okay. So discounts on incentive amount for FY11 is around 30 crores such has been given as against 25 crores in the previous year.

Natesan B

Okay, okay fine. Such a small broad question. You said that as we know that stabilizer, you know we are one of the largest brands in the country and you don't have much of competition and you enjoy but. So if that is a case then how much is stabilizer the margin has come down whereas wire which is more of more of unbranded kind of a segment where the usage of copper is more there you have been able to sustain margin I am not able to understand with this connection.

Mithun Chittilappilly, Executive Director

Yeah okay, I'll explain. I don't see as it stabilizer is not as competitive environment as a wire environment. In stabilizer our premium battery charge for a product then compare to next phase competitor may be as higher 15 to 20%.

Natesan B

Correct.

Mithun Chittilappilly, Executive Director

So this is what I say, because if we had a competitor like Crompton Greaves or Havells also making stabilizer and growing well, definitely we won't be able to charge such a high premium compared to our next best competitor.

Natesan B

Correct.

Mithun Chittilappilly, Executive Director

This is what meant by competitive environment.

Natesan B

Correct.

Mithun Chittilappilly, Executive Director

And in terms of raw material prices in wire of course as like you said we have been able to maintain our margins. In stabilizer also there has been only a margin dip of 2% this is not only because of raw material prices but is also because of sales mix.

Traditionally V-Guard always enjoy better margins for television and refrigerator stabilizers, but in the last year, our real growth had come from the air-conditioner segment for which our margins are lower. So this is another reason why the overall margins have come down.

Natesan B

And what I'm trying to understand correct this is because of you are saying because of the product segment it is also because of fact that the incremental sales in stabilizer is coming from North where you're selling in a low price is that also a reason?

Mithun Chittilappilly, Executive Director

I think in case of the non-South - mix, both wire and stabilizers have a similar mix like roughly 30% of the turnover for wires and stabilizers come from non-South market.

So that is probably not the reason why the margins have been dragged down by a bit. I would say like during '09-'10, the financial year '09-'10 we were operating with unbelievably low raw material prices. We had months where we could buy copper at $3,500 per tonne. But where as we came the last financial year from 3,000 it is got up to almost $10,000 per tonne, and now it's corrected a little bit.

So I think during the '09-'10 also, we've had a bad because of the crash in copper prices, we had to book a certain losses for our stock. So our EBITDA was actually negative.

Whereas in last financial year, we have been having deliver -- we have been able to deliver about 8, 9% EBITDA. So that is more of the reason rather than it is a product specific reason than anything else.

Natesan B

Sir, in assuming a broadly copper price has remain up and going up suppose in a right --. What is our capacity to increase prices in the wire segment. Because as we understand that the difficult portion of our revenues are coming from cables and wires. So would you be able to continue to raise prices or?

Mithun Chittilappilly, Executive Director

I think one good thing of this was we're seeing good trend what we have seen in the last financial year is that every player in the market in the wire segment be it Havells or Finolex or us as soon as there was an increase in copper prices, we have increased prices. So that is the reason why I think we've been able to have good margins, maintained our margins even in a rising price scenario.

So I think that will continue to happen in case it happens, in case there is a spike in prices of copper, definitely I think we are expecting all those major players to increase the prices. So I think even if there is a increase--see we are more worried about fluctuations. If the raw material prices go up and then crash and then go up and then crash that is more dangerous for us.

Natesan B

Right.

Mithun Chittilappilly, Executive Director

If it is inching up slowly, of course there is no problem. We are able to fully pass on the prices.

Natesan B

Don't bother about any secular trend except for any volatility in copper price, right?

Mithun Chittilappilly, Executive Director

Yeah. If the volatility is there, where there is a huge upswing and downswing then it becomes a little tricky situation for us. But if there is an increase in trend, I am pretty sure all the players will including us will increase prices.

Natesan B

Okay. And sir, in terms of in your positioning in the North as you getting mind recall in the North. Where you see yourself positioning compared to the other brands in respect to segments? Can you give a broad sketch or a nature of how do you manage with your competitor positioning there? Seeing may be cable you are seeing after Finolex there is a huge gap probably you will be second. So is there what is the current scenario and what is your target in the next couple of years?

Mithun Chittilappilly, Executive Director

I think V-Guard is always positioned itself as a premium brand in the South our products are definitely now is the cheapest one to buy in South this is proven again in the many products like stabilizers or water heaters or pumps. Our

products are not definitely not the cheapest ones in the market.

So, definitely but of course when you enter the new market we have to position ourselves as a value product value wise. Whereas has been South we are able to comment the premium for our products. But I think our aim is in the next two to three years we will have a pan India pricing and positioning policy, which is the same across the market. So, we should seeing ourselves as a premium brand rather than value brand.

Natesan B

Okay, okay. Sure and in terms of you mentioned initial part of the conversation or rather the continue call that you will be spending about 5% of the sales as advertisement expenditures. So is that stands through for FY12?

Mithun Chittilappilly, Executive Director

Yeah I think like we usually spend 5 to 5.5% of the sales amount of the previous year. So, in the current financial year, we will be spending roughly 35 to 36 crores in advertisements and promotions. So, we will see that kind of budget being created as the sales grow up consequently. So, we should be, we will be maintaining in that 5% region in the coming years.

So, of course there is a sales growth 30% our advertising budgets and therefore the following year will go up by 30%.

Natesan B

Okay. And sir, last question, as you told the new products, I believe that we were studying mixer as a product segment. Are we looking at any traction on that front and anything that we can expect in the near future? Maybe before the --.

Mithun Chittilappilly, Executive Director

As JMG, that's a juicer mixer, grinder segment is something that we are looking at very closely. But we are looking at our couple of other products also very actively. So, we are definitely we have decided to because both, there are two products that are both similar kind of stage development works are going on. So depending upon which we are able to bring to the market first we will be looking at least launching one new product category by the end of year, but I cannot comment whether it will be the or juicer mixer grinder segment or some other segment.

Natesan B

Sure sir. Fine, sir. Thanks and congratulations once again.

Mithun Chittilappilly, Executive Director

Okay. Thank you.

Operator

Thank you. As there are no further questions at this time I would like to hand the conference back to Mr. Arun Baid for closing comments.

Arun Baid, IDBI Capital Market Securities Ltd.

Yeah, I would like to thank the management of V-guard Industries for giving us a chance to host the concall as well as all the participants for participating in it. Thank you.

Mithun Chittilappilly, Executive Director

Thank you.

Jacob Kuruvila, Chief Financial Officer

Thank you.

Operator

Thank you. On behalf of IDBI Capital Market Services Limited that concludes this conference call. Thank you all for joining us and you may now disconnect your lines. Thank you.