

V-Guard Industries

Q3 & 9M FY2014 Earnings Presentation



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Company Overview

Comprehensive portfolio catering to the mass consumption market	- Ç Electronics - Stabilizers, UPS and Digital UPS - Ç Electricals - Pumps, House Wiring and Industrial Cables, Electric Water Heaters, Fans - Ç Other launches include Solar Water Heaters, Induction cooktops, Switchgears and Mixer Grinders - Ç Household consumption market will continue to grow at a significant pace over the next five years
Invested in a strong distribution network	- Ç Spread over 28 branches nationwide - Ç Network of over 301 distributors, 3,548 channel partners and 15,000 retailers
Strong Brand Equity	- Ç Aggressive ad spends and sales promotions have created a strong equity and brand recall - Ç Strong established player in South India with leadership in the Voltage Stabilizer segment
Expanding towards a pan India presence	- Ç Significant investments committed towards aggressive expansion in non-South markets - Ç Doubling house-wiring factory and setting up second manufacturing unit for solar water heaters
Mix of in-house and outsourcing production model provides flexibility	- Ç Follows an asset light model outsourcing ~60% of its products from a range of vendors - Ç Tie-ups with SSIs/self-help groups spread across southern India help derive excise benefit - Ç Blended manufacturing policy helps optimize capex and working capital requirements
Increasing market share across all product lines	- Ç Leadership position in its flagship product, voltage stabilizers, with over 51% market share - Ç Successfully gained market share in all of its product categories - Ç Rapidly expanding market share in the non-South markets
Strong Financial Performance	- Ç Revenues and PAT have grown at a CAGR of 37% and 34% between FY08-FY13 - Ç Significant expansion in return ratios over the last five years; ROE at 24% and ROCE at 23% for FY2013

Managing Director's Message



Commenting on the performance for Q3 & 9M FY2014, Mr. Mithun Chittilappilly, Managing Director - V-Guard Industries Limited said,

"In a tough operating environment, we have delivered a stable performance this quarter. On an overall basis, durables sales were impacted owing to weak consumer sentiment. Further, the sand mining ban in many parts of the country has led to a slowdown in construction activity, and led to muted sales in the wires segment. Weakness in the South markets was offset by strong growth of 29% YoY in the non-South markets where we continue to expand rapidly.

After delivering a sales growth of 12% YoY in the first nine months this year, we revise our outlook in terms of topline growth to 11-12% for FY14 at EBITDA margins of at least 8.5%.

We continue to build on our competitive strengths, expanding our network of channel partners and retailers across the country and enhancing our brand recall in the non-south markets through aggressive ad spends and sales promotions. With any improvement in the macro-economic environment, we are optimistic of reverting to our normalized growth trajectory."

Key Highlights – Q3 & 9M FY14

Ç **Strong revenue growth of 29% YoY in Non-South markets in Q3 FY14**

- ñ All products showcasing good growth in non-South led by electric water heater segment
- ñ Non-South accounted for 30% of total sales in Q3 FY14 vs. 23% in Q3 FY13
- ñ Overall sales growth in Q3 FY14 was flat on account of muted demand for durables in the festive season and slowdown in construction activity across tier II and III cities

Ç **EBITDA margins expand 80 bps YoY to 8.6% in Q3 FY14**

- ñ COGS/Sales improved by 100 bps YoY
- ñ Ad expenditure to sales at 3.6% in Q3 FY14 vs. 4.6% in Q3 FY13

Ç **PAT growth of 14% YoY in Q3 FY14**

- ñ EPS of Rs. 5.9 in Q3 FY14 vs. Rs. 5.1 in Q3 FY13

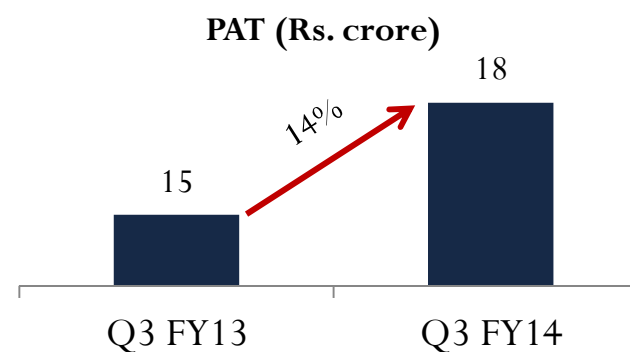
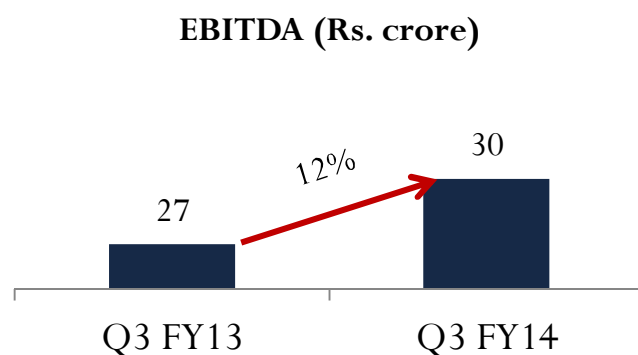
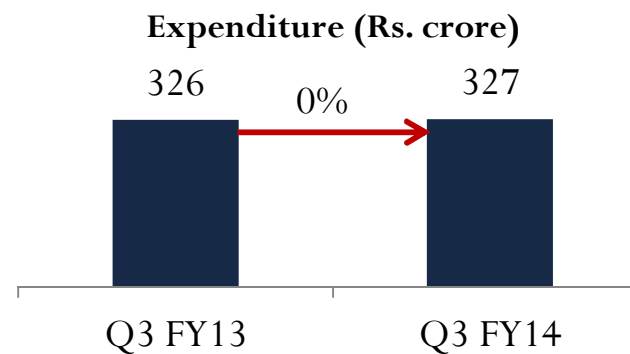
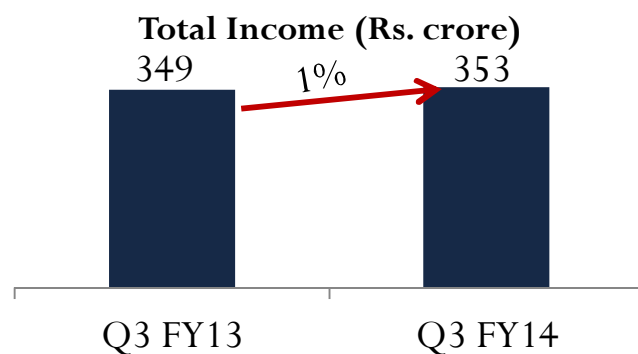
Ç **Working capital cycle on a TTM basis improves by 9 days to 76 days**

- ñ Led by 15 days reduction in debtors

Ç **Strong cash generation in 9M FY14**

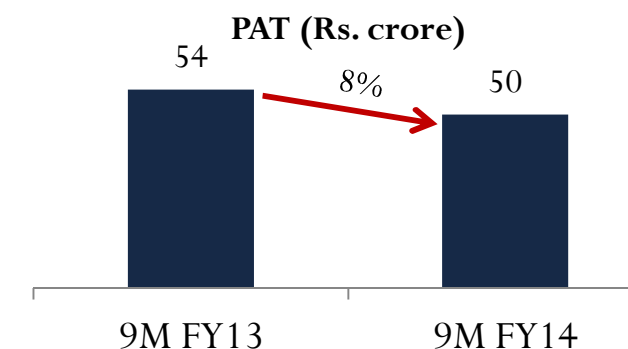
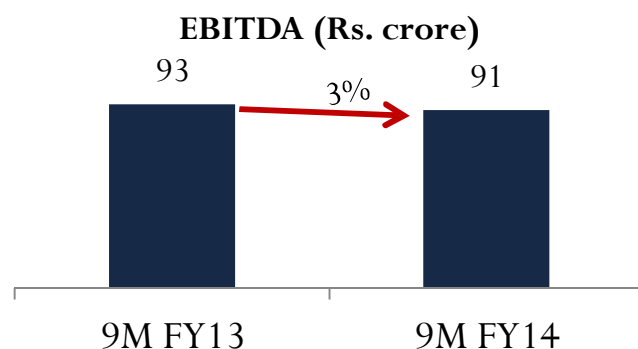
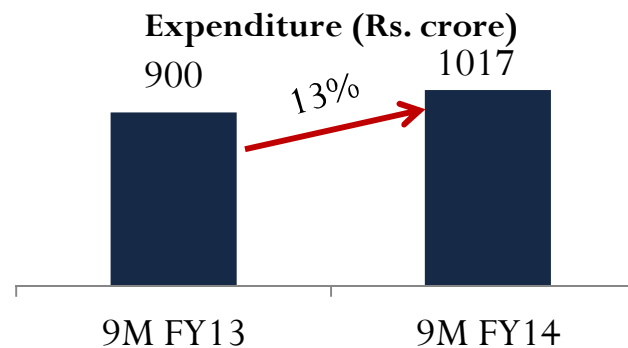
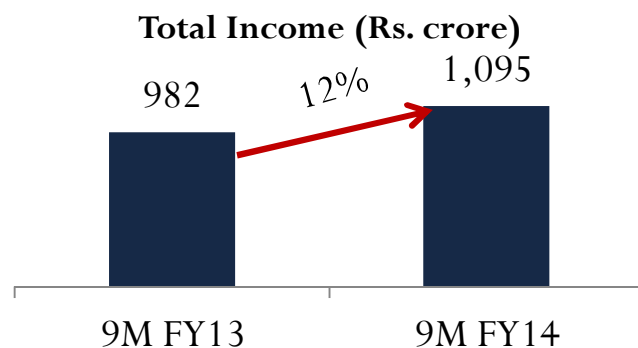
- ñ Cash from operations at Rs. 90 crore in 9M FY14 as compared to Rs. 14.5 crore for full year FY13

Financial Highlights (Q3 FY2014)



Key ratios (%)	Q3 FY14	Q3 FY13
EBITDA Margin	8.6%	7.8%
Net Margin	5.0%	4.4%
COGS/ Total Operating Income	73.1%	74.1%
Ad Expenditure (incl. promotions)/Total Revenues	3.6%	4.6%
Staff Cost/ Total Operating Income	5.8%	5.2%
Other Expenditure/ Total Operating Income	7.0%	6.5%
EPS (Rs.)	5.88	5.14

Financial Highlights (9M FY2014)



Key ratios (%)	9M FY14	9M FY13
EBITDA Margin	8.3%	9.5%
Net Margin	4.5%	5.5%
COGS/ Total Operating Income	73.3%	74.1%
Ad Expenditure (incl. promotions)/Total Revenues	4.1%	3.5%
Staff Cost/ Total Operating Income	5.9%	5.2%
Other Expenditure/ Total Operating Income	6.5%	5.9%
EPS (Rs.)	16.6	18.1

Financial Highlights – B/S Perspective

Balance Sheet Snapshot (Rs. crore)	31 December 2013	30 September 2013	31 December 2012
Net worth	312.9	294.5	264.6
Total debt	117.7	107.7	157
○ <i>Working capital</i>	77.1	71.4	134.0
○ <i>Term loan</i>	40.6	36.3	22.9
Acceptances	84.5	80.3	46.8
Fixed Assets	169.5	164.0	140.1

Key Ratios	31 December 2013	31 December 2012
Inventory (days)	86	87
Debtor (days)	44	59
Creditor (days)	53	61
Working Capital Turnover (days)	76	85
RoE (%)	19%	28%
RoCE (%)	22%	27%
Debt/Equity (x)	0.4	0.6

Please note all calculations are based on a TTM basis

Segment-wise Breakup of Revenues – Q3 FY14 vs Q3 FY13

Segment	Products	Q3 FY2014 (Rs. cr.)	Contribution (%)	Q3 FY2013 (Rs. cr.)	Contribution (%)	YoY growth (%)
Electronics	Stabilizers	55.4	15.7%	52.1	14.9%	6.4%
	Standalone UPS	5.7	1.6%	10.7	3.1%	-47.3%
	Digital UPS	23.5	6.7%	40.6	11.6%	-42.2%
	Segment Total	84.6	24.0%	103.4	29.6%	-18.2%
Electricals	Pumps	40.8	11.6%	48.5	13.9%	-15.9%
	House wiring cable	112.2	31.8%	99.5	28.5%	12.7%
	LT cable	17.1	4.9%	17.7	5.1%	-3.2%
	Electric water heater	58.2	16.5%	46.4	13.3%	25.6%
	Fan	16.1	4.6%	13.8	4.0%	16.3%
	Other Products	9.9	2.8%	8.9	2.5%	10.8%
	Segment Total	254.3	72.1%	234.9	67.3%	8.3%
Others	Solar water heater	14.0	4.0%	10.7	3.1%	30.3%
	Segment Total	14.0	4.0%	10.7	3.1%	30.3%
	GRAND TOTAL	352.9	100.0%	349.0	100.0%	1.1%

Segment-wise Breakup of Revenues – 9M FY14 vs. 9M FY13

Segment	Products	9M FY2014 (Rs. cr.)	Contribution (%)	9M FY2013 (Rs. cr.)	Contribution (%)	YoY growth (%)
Electronics	Stabilizers	199.9	18.3%	179.8	18.3%	11.2%
	Standalone UPS	28.1	2.6%	36.8	3.7%	-23.5%
	Digital UPS	106.2	9.7%	115.6	11.8%	-8.1%
	Segment Total	334.3	30.5%	332.2	33.8%	0.6%
Electricals	Pumps	130.2	11.9%	137.7	14.0%	-5.4%
	House wiring cable	335.6	30.6%	268.6	27.4%	25.0%
	LT cable	52.6	4.8%	56.4	5.8%	-6.9%
	Electric water heater	120.3	11.0%	94.3	9.6%	27.6%
	Fan	63.3	5.8%	51.5	5.3%	22.9%
	Other Products	28.5	2.6%	18.6	1.9%	53.2%
	Segment Total	730.5	66.7%	627.1	63.9%	16.5%
Others	Solar water heater	30.3	2.8%	22.2	2.3%	36.8%
	Segment Total	30.3	2.8%	22.2	2.3%	36.8%
	GRAND TOTAL	1095.1	100.0%	981.5	100.0%	11.6%

Geographical Breakup of Gross Revenues

Region	Q3 FY2014 (Rs. cr.)	Contribution (%)	Q3 FY2013 (Rs. cr.)	Contribution (%)	YoY growth (%)
South	249.6	70%	271.4	77%	-8%
Non-South	107.3	30%	83.2	23%	29%
Total Gross	356.9	100%	354.6	100%	1%

Region	9M FY2014 (Rs. cr.)	Contribution (%)	9M FY2013 (Rs. cr.)	Contribution (%)	YoY growth (%)
South	779.87	70%	752.90	75%	4%
Non-South	330.90	30%	245.50	25%	35%
Total	1,110.8	100%	998.4	100%	11%

Outlook

Strong demand outlook	- Ç Household consumption expected to grow at a significant pace over the next five years - Ç Expansion of construction activity in South India
Leveraging investments in non-South markets	- Ç Investments towards establishing strong dealer network in non-South markets over the last 3 years - Ç Average revenue per distributor in non-South markets is ~Rs. 2.5 crore as compared to ~Rs. 7.5 crore in in South markets, providing significant scope for expansion of business on existing investments
Increasing brand visibility	- Ç Continued investments in advertising and marketing to enhance brand visibility and facilitate pan-India expansion - Ç Advertising spends to be to the tune of 3.5-4% for FY2014
Working capital efficiencies	- Ç Vendor financing and bill discounting initiatives to help lower cash conversion cycle - Ç Increase the proportion of channel financing going forward - Ç Increased pricing power in non-South markets, will help to improve debtor days
Robust financial performance to continue	- Ç Topline growth outlook revised to 11-12% for FY2014 at EBITDA margins of at least 8.5% - Ç Robust incremental growth, steady margins, focused working capital management and stable asset base will lead to strong cash generation

About V-Guard Industries

V-Guard Industries Limited (BSE:532953, NSE: VGUARD) is a Kochi based company, incepted in 1977 by Kochouseph Chittilapilly to manufacture and market Voltage stabilizers. The Company has since then established a strong brand name and aggressively diversified to become a multi-product Company catering to the Light Electricals sector manufacturing Voltage stabilizers, Invertors & Digital UPS systems, Pumps, House wiring/LT cables, Electric water heaters, Fans, Solar water heaters and has also recently forayed into Induction cooktops and Switchgears.

V-Guard outsources 60% of its product profile while the rest are manufactured in – house while keeping a strong control in designs and quality. It has manufacturing facilities at Coimbatore (Tamil Nadu), Kashipur (Uttaranchal) and Kala Amb (Himachal Pradesh).

V-Guard has been a dominant player in the South market, though the last five years have also seen the Company expanding rapidly in the non-South geographies with their contribution increasing from 5% of total revenues in FY08 to around 25% of total revenues in FY13. Significant investments continue to be made to expand its distributor base in the non-South geographies, and become a dominant pan-India player.

V-Guard has a diversified client base and an extensive marketing & distribution network. Its client base differs from product to product and includes direct marketing agents, distributors and retailers. The Company today has a strong network of 28 branches, over 230 distributors, 3,000 channel partners and 15,000 retailers across the country.

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THANK YOU

