



V-Guard Industries

Q3 FY2016 Earnings Presentation

Disclaimer

Certain statements in this communication may be 'forward looking statements' within the meaning of applicable laws and regulations. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Important developments that could affect the Company's operations include changes in the industry structure, significant changes in political and economic environment in India and overseas, tax laws, import duties, litigation and labour relations.

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Managing Director's Message



Commenting on the performance for Q3 FY16, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,

"Q3 top line growth has been impacted on account of the falling realizations in our largest segment, cables and wires, which is linked to the fluctuations in international copper prices. However, volume growth in the segment continued to be healthy at 12%. Our newer product categories, switchgears and kitchen appliances, are receiving a good response and seeing healthy growth. The quarter also witnessed a turnaround in the pumps segment. Stabilizer and fans segments continue to track well.

We are yet to see a pick up in discretionary spending. The entire benefit of RBI rate cuts have not been passed on completely by the banks. In this environment, we have focused on delivering operational excellence. Our gross margins have improved by 220 bps QoQ and 450 bps YoY. Net profit margins have improved 290 bps YoY, led by reduction in finance costs. Working capital efficiencies have yielded Rs. 102 crore of cash from operations in 9M FY16 which has been utilized to significantly reduce debt.

Our non-South profitability continues to expand and this year we have delivered positive contribution till PBT level. Profitable growth is a key driver of our business, with focus on margins and cash flows. While the impact from the spending environment and copper prices means that FY16 topline growth may be moderated to about 5%, we expect EBITDA margin to track at almost 9%, a gain of 100 bps over last year. Our 9M PAT is up 37%, almost in line with full year PAT of FY15, providing strong profit momentum."

Key Highlights – Q3 FY2016

Revenue growth of 5.3% YoY at Rs. 416 crore

- Consumer sentiment continues to be weak
- Wires segment impacted on account of lower realizations due to falling copper prices

Gross margin expands 450 bps YoY / 220 bps QoQ to 30.9%

- Gross profit up 23% YoY to Rs. 129 crore
- Led by lower input costs and inventory management

EBITDA margins at 8.8%, up 300 bps YoY, flat QoQ

- EBITDA growth of 60% YoY to Rs. 36.4 crore
- Ad expenditure to sales at 4.9% vs 4.9% in Q3 FY15

PAT growth of 133% YoY to Rs. 21.5 crore

- PAT margin improves 290 bps YoY to 5.2%
- Led by better EBITDA margins and reduced finance costs

Working capital improves by 9 days YoY to 68 days

- Inventory days improve by 15 days YoY to 66 days
- Creditor days at 44 days
- Conscious decision to limit bill discounting given strong cash generation and lower inventory levels

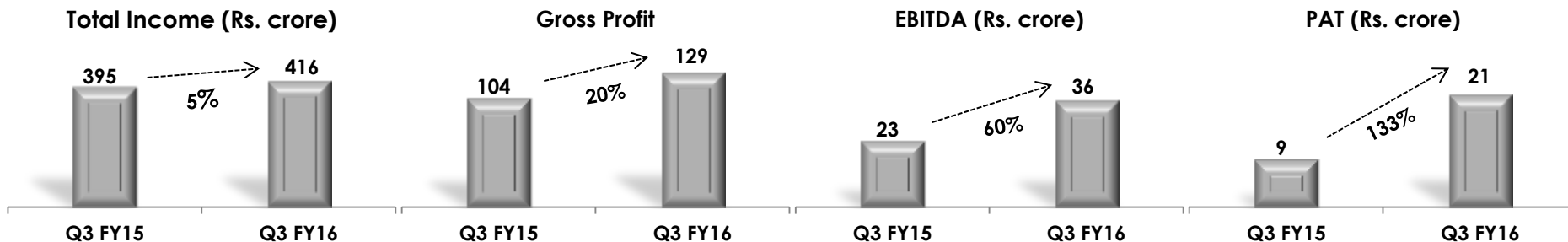
Strong return ratios

- ROE and ROCE of 20% and 28% respectively (TTM)

Strong cash generation

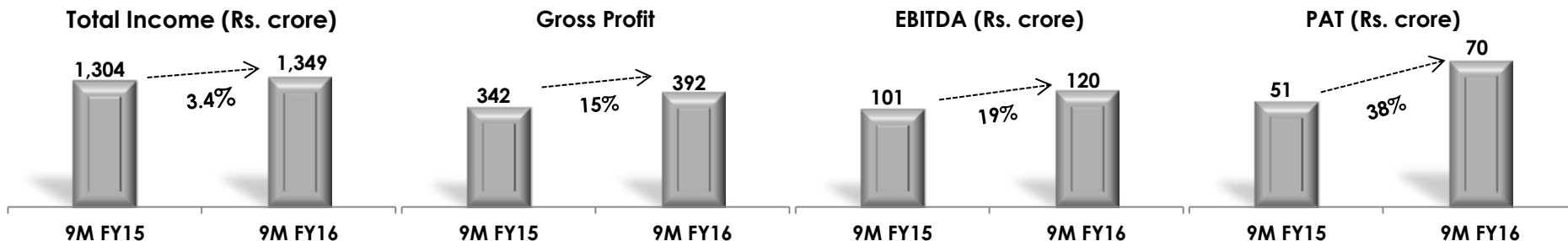
- CFO strong at Rs. 45 crore during Q3 FY16; Rs. 102.4 crore in 9M FY16
- D/E at 0.05x as on 31 Dec 2015 as compared to 0.27x as on 31 Dec 2014

Financial Highlights (Q3 FY2016 vs Q3 FY2015)



Key ratios (%)	Q3 FY16	Q3 FY15
Gross Margin	30.9%	26.4%
EBITDA Margin	8.8%	5.8%
Net Margin	5.2%	2.3%
Ad Expenditure (incl. promotions)/Total Revenues	4.9%	4.9%
Staff Cost/ Total Operating Income	6.9%	5.9%
Other Expenditure/ Total Operating Income	8.5%	7.8%
Tax rate	31.0%	32.1%
EPS (Rs.)	7.16	3.09

Financial Highlights (9M FY2016 vs 9M FY2015)



Key ratios (%)	9M FY16	9M FY15
Gross Margin	29.1%	26.2%
EBITDA Margin	8.9%	7.7%
Net Margin	5.2%	3.9%
Ad Expenditure (incl. promotions)/Total Revenues	4.5%	4.3%
Staff Cost/ Total Operating Income	6.1%	5.4%
Other Expenditure/ Total Operating Income	7.7%	6.7%
Tax rate	30.6%	30.8%
EPS (Rs.)	23.24	16.97

Financial Highlights – Balance Sheet Perspective

Balance Sheet Snapshot (Rs. crore)	31 December 2015	30 September 2015	31 December 2014
Net worth	450.8	427.8	371.1
Total debt	23.8	38.6	99.5
o Working capital	0.2	12.5	66.1
o Term loan	23.6	26.1	33.4
Acceptances	7.9	22.6	73.1

Key Ratios	31 December 2015	30 September 2015	31 December 2014
Debtor (days)	47	50	81
Inventory (days)	66	64	41
Creditor (days)	44	38	44
Working Capital Turnover (days)	68	76	78
RoE (%)	20%	18%	19%
RoCE (%)	28%	26%	25%
Gross Debt / Equity (x)	0.05	0.09	0.27

Please note all calculations are based on a TTM basis

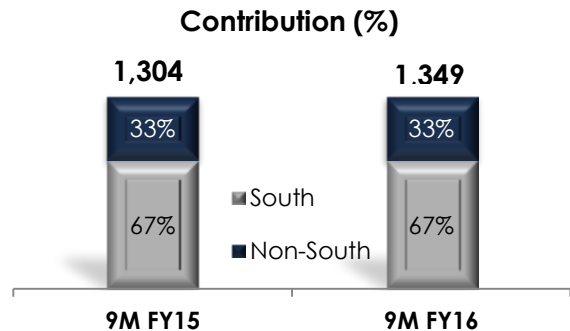
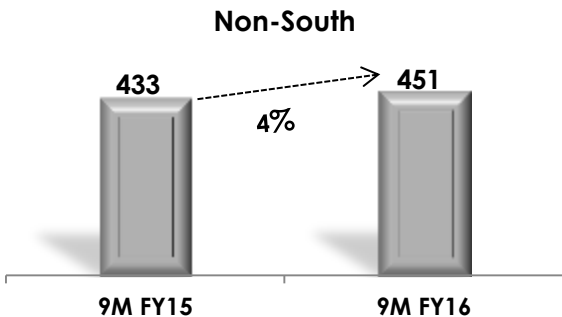
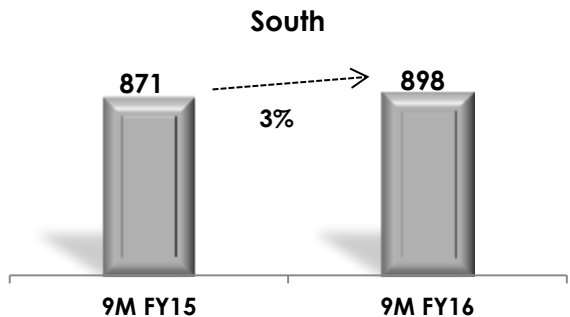
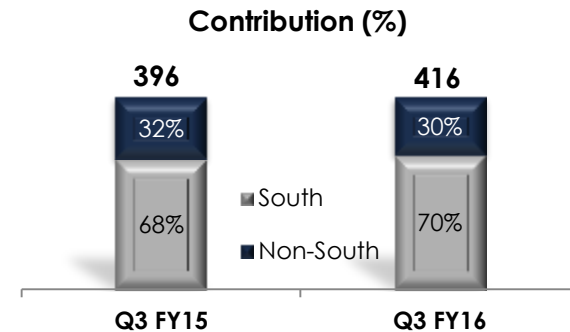
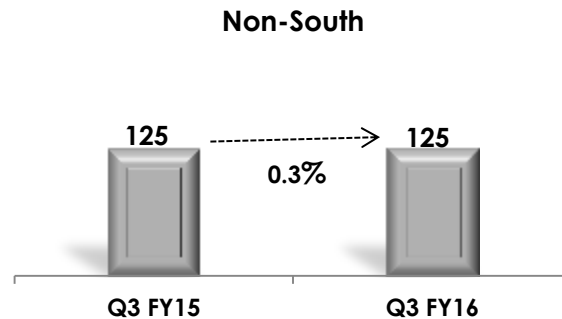
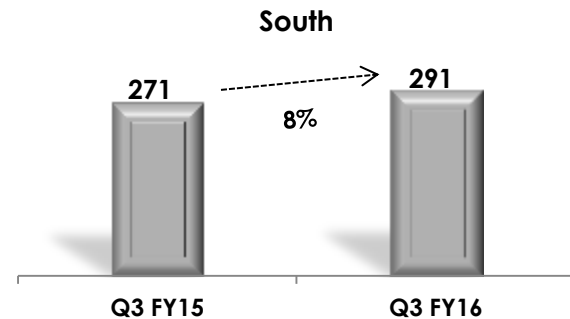
Segment-wise Breakup of Revenues – Q3 FY16 vs Q3 FY15

Products	Q3 FY2016 (Rs. cr.)	Contribution (%)	Q3 FY2015 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	76.3	18.3%	68.4	17.3%	11.6%
UPS (Digital + Standalone)	33.6	8.1%	34.8	8.8%	-3.6%
Electronics Segment Total	109.9	26.4%	103.2	26%	6.5%
Pumps	43.2	10.4%	37.3	9.4%	15.8%
Cables & Wires (PVC + LT)	130.5	31.3%	133.4	33.7%	-2.2%
Water Heaters (Electric + Solar)	90.7	21.8%	86.3	21.8%	5.1%
Fan	26.1	6.3%	22.8	5.8%	14.6%
Electricals Segment Total	290.5	69.8%	279.8	71%	3.8%
Kitchen Appliances (Induction Cooktops + Mixers)	7.5	1.8%	5.6	1.4%	33.6%
Switchgears	8.4	2.0%	6.7	1.7%	25.2%
New Products Total	15.9	3.8%	12.3	3%	29.0%
GRAND TOTAL	416.3	100.0%	395.3	100%	5.3%

Segment-wise Breakup of Revenues – 9M FY16 vs 9M FY15

Products	9M FY2016 (Rs. cr.)	Contribution (%)	9M FY2015 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	269.0	19.9%	247.3	19.0%	8.8%
UPS (Digital + Standalone)	139.2	10.3%	170.7	13.1%	-18.5%
Electronics Segment Total	408.2	30.3%	418.0	32%	-2.3%
Pumps	135.9	10.1%	127.1	9.7%	6.9%
Cables & Wires (PVC + LT)	434.0	32.2%	431.3	33.1%	0.6%
Water Heaters (Electric + Solar)	214.9	15.9%	196.3	15.1%	9.5%
Fan	104.7	7.8%	88.1	6.8%	18.8%
Electricals Segment Total	889.5	65.9%	842.8	65%	5.5%
Kitchen Appliances (Induction Cooktops + Mixers)	28.1	2.1%	27.6	2.1%	1.5%
Switchgears	23.2	1.7%	15.9	1.2%	46.3%
New Products Total	51.2	3.8%	43.5	3%	17.8%
GRAND TOTAL	1,349.0	100.0%	1,304.3	100%	3.4%

Geographical Breakup of Revenues



Outlook

Industry Drivers

- Strong demand from housing construction activity and increased penetration in Tier 2, 3 and 4 cities
- Easy access to credit and a rising middle class population with increasing disposable income

Distribution Network

- To increase more retailers below existing distributors going forward
- Increasing revenue per distributor, providing significant scope for expansion on existing investments

Advertising Expenditure

- Continued investments in advertising and marketing to enhance brand visibility and facilitate pan-India expansion
- Advertising spends to be to the tune of 3.5-4% for FY2016

Working Capital Efficiencies

- Target to reduce cash conversion cycle by 5 days every year through various initiatives
- Increased pricing power in non-South markets, will help to improve debtor days

Annexure

Company Overview

Comprehensive portfolio catering to the mass consumption market

- Electronics - Stabilizers, UPS and Digital UPS
- Electricals - Pumps, House Wiring and Industrial Cables, Electric Water Heaters, Fans
- Other products include Solar Water Heaters, Induction cooktops, Switchgears and Mixer Grinders
- Household consumption market will continue to grow at a significant pace over the next five years

Invested in a strong distribution network

- Spread over 28 branches nationwide
- Network of over 621 distributors, 5,501 channel partners and ~25,000+ retailers

Strong Brand Equity

- Aggressive ad spends and sales promotions have created a strong equity and brand recall
- Strong established player in South India with leadership in the Voltage Stabilizer segment

Expanding towards a pan India presence

- Significant investments committed towards aggressive expansion in non-South markets
- Increased capacities for house-wiring cables and solar water heaters

Mix of in-house and outsourcing production model provides flexibility

- Follows an asset light model outsourcing ~60% of its products from a range of vendors
- Tie-ups with SSIs/self-help groups spread across southern India help derive excise benefit
- Blended manufacturing policy helps optimize capex and working capital requirements

Increasing market share across all product lines

- Leadership position in its flagship product, voltage stabilizers, with over 51% market share
- Successfully gained market share in all of its product categories
- Rapidly expanding market share in the non-South markets

Strong Financial Performance

- Revenues and PAT have grown at a CAGR of 26% and 16% between FY11-15
- ROE at 19% and ROCE at 26% for FY2015

Production Model



PVC Cable Factory



LT Cable Factory



Solar Water Heater Factory



Stabilizer Manufacturing Units

Product	No. of Units	Location
Own Manufacturing Facilities		
PVC Wiring Cables	2	Coimbatore, Kashipur
LT Cables	1	Coimbatore
Pumps & Motors	1	Coimbatore
Fans	1	Kala Amb, Himachal Pradesh
Water Heater	1	Kala Amb, Himachal Pradesh
Solar Water Heaters	1	Perundhurai
Stabilizers	1	Sikkim
Outsourced production facilities		
Stabilizers	63	Across India
Pump	20	"
Fan	6	"
UPS	12	"
Elec. Water Heater	7	"

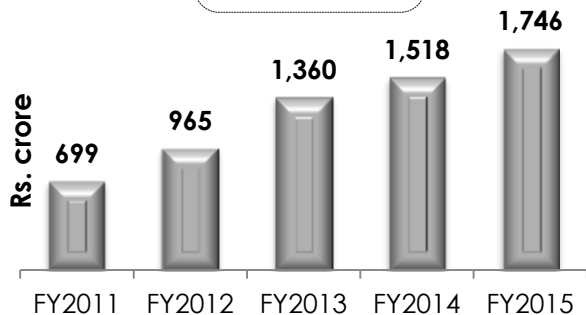
Outsourcing Objectives

- Asset light model outsourcing ~60% products
- Complete control over supply chain ecosystem
- R&D support to vendors' technical teams
- Quality assurance official posted at vendors' production units to ensure maintenance of quality
- Owns all its designs and moulds
- Helps procure raw material for the vendors, negotiating price with the supplier
- Tie-ups with SSIs/self-help groups across Southern India for flagship product, Stabilizers, helps derive excise benefit
- Blended manufacturing policy helps optimize capex and working capital requirements

Financial Highlights (FY11-15)

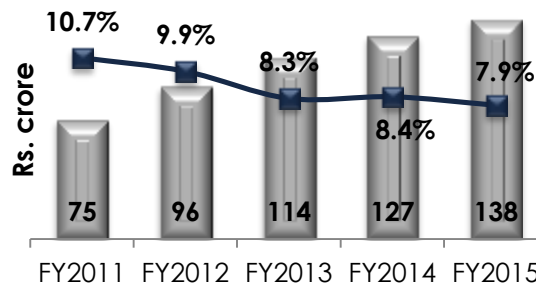
Revenue

CAGR – 26%



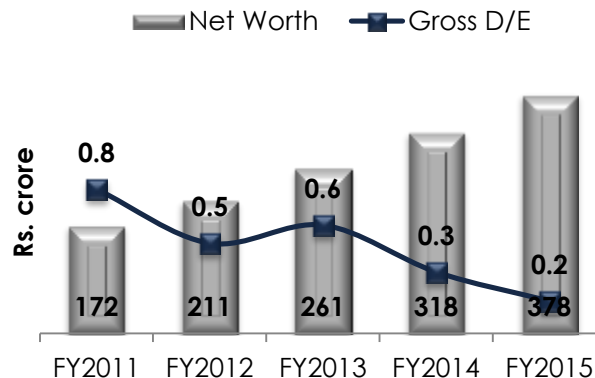
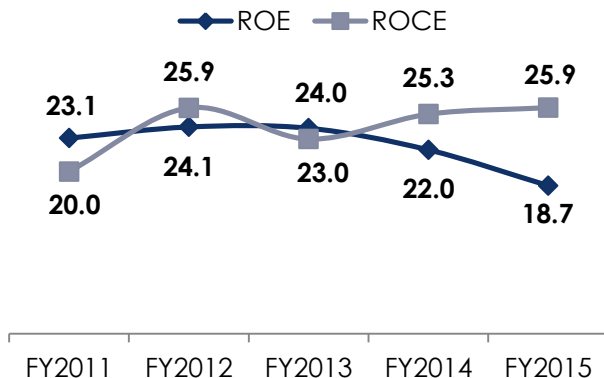
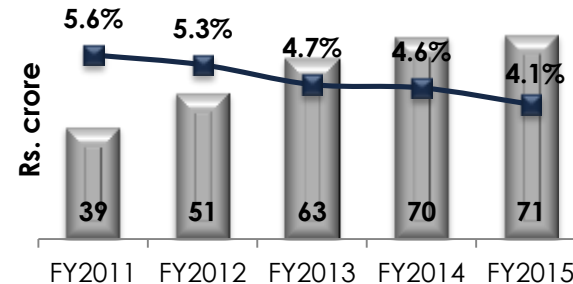
EBITDA and EBITDA Margins

CAGR – 16%



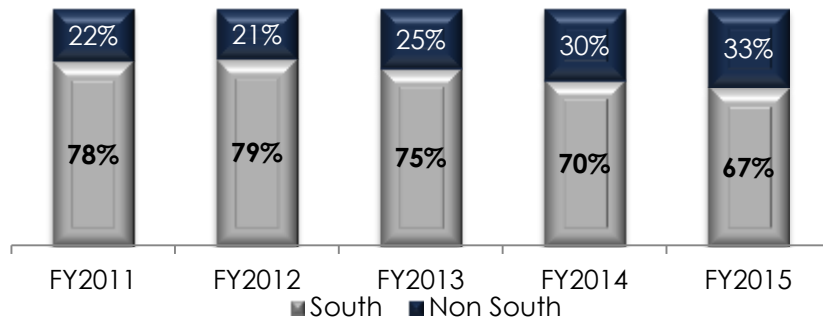
PAT and PAT Margins

CAGR – 16%

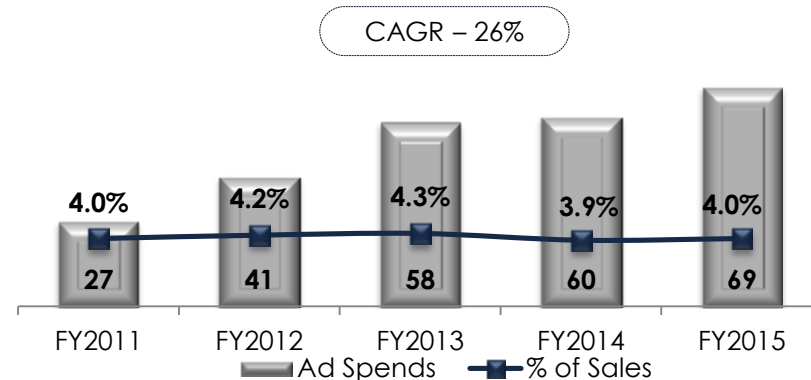


Operational Highlights (FY11-15)

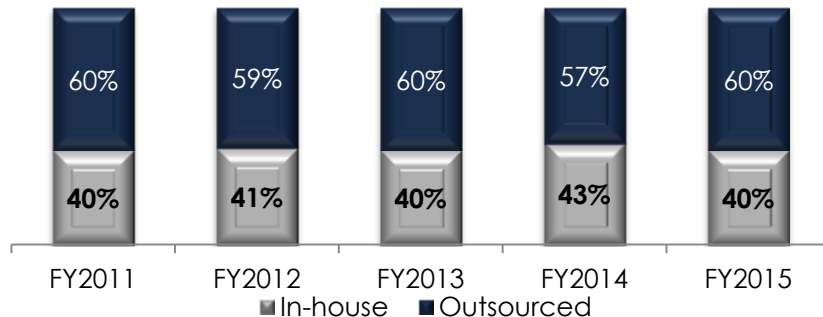
Expanding Geographic Presence



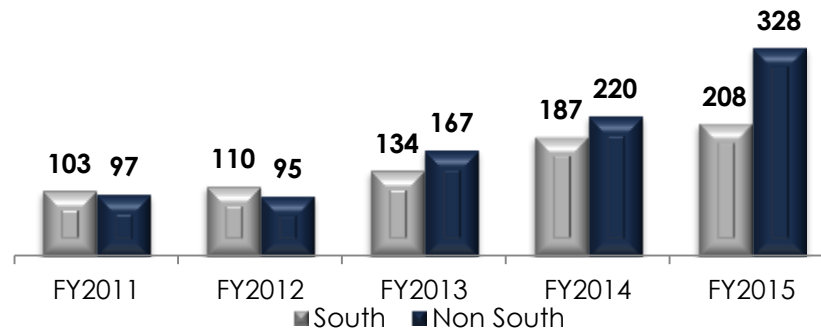
Ad Spends and as a % of Sales



In-house Manufacturing vs. Outsourcing



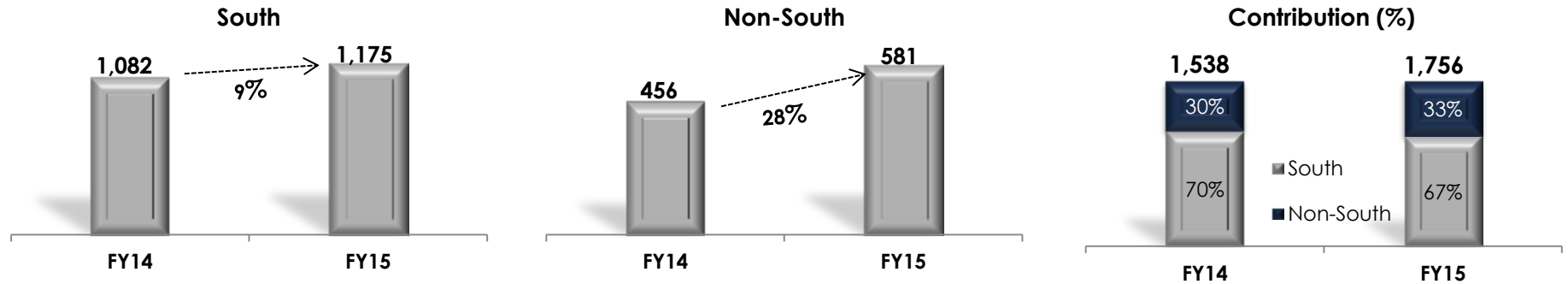
Strong Growth in Dealer Network



Segment-wise Breakup of Revenues – FY15 vs FY14

Products	FY2015 (Rs. cr.)	Contribution (%)	FY2014 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	326.8	19%	266.4	17.6%	22.7%
UPS (Digital + Standalone)	222.1	13%	184.0	12.1%	20.7%
Electronics Segment Total	548.9	31%	450.4	30%	21.9%
Pumps	189.0	11%	202.2	13.3%	-6.5%
Cables & Wires (PVC + LT)	583.7	33%	546.5	31%	6.8%
Water Heaters (Electric + Solar)	228.0	13%	175.1	11.5%	30.2%
Fan	137.5	8%	102.4	6.7%	34.3%
Electricals Segment Total	1,138.1	65%	1,026.2	67.6%	10.9%
Kitchen Appliances (Induction Cooktops + Mixers)	36.9	2%	25.0	1.6%	47.7%
Switchgears	22.1	1%	16.0	1.1%	37.8%
New Products Total	58.9	3%	41.0	3%	43.8%
GRAND TOTAL	1,745.9	100%	1,517.6	100%	15.0%

Geographic Breakup of Revenues – FY15 vs FY14



Market Size across Product Segments

Product	Market Size (Rs. Crore)*			Key Players	Production Model	Distribution Channel Strategy
	Organized	Unorganized	Total			
 STABILIZERS	400.00	800.00	1,200.00	Bluebird, Capri, Logicstat, Premier, Everest	100% Outsourced	Consumer Durable stores, Electrical and Hardware Stores
 PVC CABLES	4000.00	3000.00	7,000.00	Havells, Finloex	100% In-House	Electrical and Hardware Stores
 LT POWER CABLES	4300.00	3000.00	7,300.00	Havells, Finloex	100% In-House	Electrical and hardware Stores, Direct Marketing Channel

*Company estimates FY13

Market Size across Product Segments

Product	Market Size (Rs. Crore)*			Key Players	Production Model	Distribution Channel Strategy
	Organized	Unorganized	Total			
 MOTOR PUMPS	900.00	1,100.00	2,000.00	Crompton Greaves, Kirloskar, CRI, Texmo	90% Outsourced	Electrical and hardware Stores, Pump and Pipe fittings Stores
 WATER HEATERS	650.00	550.00	1,200.00	A.O. Smith, Racold, Bajaj, Venus, Crompton Greaves	90% Outsourced	Consumer Durable stores , Electrical and Hardware Stores
 FANS	3,500.00	1,500.00	5,000.00	Crompton, Bajaj Electricals, Havells, Orient	90 % Outsourced	Consumer Durable stores , Electrical and Hardware Stores

*Company estimates FY13

Market Size across Product Segments

Product	Market Size (Rs. Crore)*			Key Players	Production Model	Distribution Channel Strategy
	Organized	Unorganized	Total			
 UPS	160.00	240.00	400.00	Numeric, APC, Emerson	Outsourced	Consumer Durable stores
 Digital UPS	6,500.00	1,000.00	7,500.00	Microtek, Luminous, Su-Kam	Outsourced	Consumer Durable stores, Electrical and Hardware stores, Battery Retail stores
 SOLAR WATER HEATER	425.00	225.00	650.00	Tata BP Solar	100% In-House	Direct Marketing Channel

*Company estimates FY13

About V-Guard Industries

V-Guard Industries Limited (BSE:532953, NSE: VGUARD) is a Kochi based company, incepted in 1977 by Kochoseph 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, switchgears and mixer grinders.

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 33% of total revenues in FY15. 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, 585 distributors, 5,532 channel partners and ~25,000+ retailers across the country.

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THANK YOU