V-GUARD

The name you can trust

V-Guard Industries

Q3 & 9M FY2018 Earnings Presentation

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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 & 9M FY18, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,

"After delivering a strong Q2, we have carried the momentum into Q3, with a robust topline growth of 17.1% YoY and PAT growth of 41.4% YoY. Adjusted for the GST related price impact across our product categories, the revenue growth is even stronger at over ~23% YoY. The growth has been broad-based across product categories led by digital UPS (+32% YoY), fans (+38% YoY), kitchen appliances (+54% YoY), wires (+25% YoY) and switchgears (+47% YoY).

Non-South markets recorded strong growth of 24.7% YoY and contributed 35% of the Q3 FY18 revenues from 33% last year. The growth has been driven by increased visibility, brand penetration and by the expansion of our product portfolio in these markets.

We have seen a significant improvement in our underlying margin performance across key product categories driven by product differentiation, pricing power and quick pass through of commodity price increases in case of wires. We have continued to spend aggressively on enhancing our visibility in the non-South markets. Ad spends (incl promotional schemes) were to the tune of 5.7% of overall sales in Q3 FY18. However, we are placing greater focus on ATL spending (3.7% in Q3 FY18 vs 3.0% in Q3 FY17) and undergoing a brand rejuvenation exercise which includes the rolling out of a new brand identity in Q4 to reflect the company's transformation into a leading multi-product, pan-India brand in the Consumer Electricals space.

To conclude, we have reported a strong financial and operational performance this quarter, This takes our topline growth to 10.6% in 9M FY18 which is ~14.5% growth on a like-to-like basis. The growth outlook is positive going into Q4 FY18, the peak season for the company's products, and we are confident of maintaining our growth targets for the year. In addition, our cash positive balance sheet (Rs. 105 crore as on 31st December 2017) provides the platform to pursue inorganic opportunities."

Key Highlights – Q3 FY2018

Revenue growth of 17.1% YoY

- Adjusted for GST related price changes, revenue growth for the quarter stood at ~23% YoY (17% reported growth)
- Broad-based growth across all product categories led by digital UPS, fans, kitchen appliances, wires and switchgears
- Non-South markets recorded robust growth of 24.7% YoY
- Growth outlook positive going into Q4 FY18, the peak season for the company's products, in line with expectations for FY18

Gross profit up 25.2% YoY

- Gross margins expanded 210 bps YoY to 32.4% on a reported basis
- Underlying improvement, adjusted for GST price deflation, stood at ~60 bps driven by better margins across key product categories – fans, switchgears and wires (quick pass through of commodity price increases in wires)

EBITDA higher by 31.8% YoY

- Reported EBITDA margins expand 110 bps YoY to 9.9%
- Ad expenditure (incl promotions) to sales at 5.7% in Q3 FY18 as compared 6.2% in Q3 FY17
- Greater focus on ATL spending in line with objective of creating pan-India brand (3.7% in Q3FY18 vs 3.0% in Q3FY17)
- Planned brand rejuvenation activity in Q4 FY18

Working capital cycle at 68 days in Q3 FY18

- Working capital cycle at 68 days in Q3 FY18 vs 71days in Q3 FY17
- Driven by 12 days YoY improvement in creditor days to 65 days; inventory days at 77 days, 1 day YoY improvement
- Receivable days have seen a temporary increase on account of back-ended momentum of sales during Q3 FY18

Robust cash generation

- Cash flow from operations of Rs. 75 crore in 9M FY18
- Rs 32 crore of GST-related increase in working capital – including Rs. 22 crore due to input tax credit, which is expected to be received soon
- Net cash of Rs. 105 crore on balance sheet as on 31st December 2017

Strong return ratios

- Strong return ratios maintained with ROE and ROCE of 20.0% and 24.7% respectively (Quarterly Annualized) in Q3 FY18 vs ROE and ROCE of 17.3% and 21.3% in Q3 FY17

Note: *V-Guard adopted Ind-AS framework starting Q1 FY18. Comparable prior period numbers have been restated in compliance with Ind-AS .*

Business Updates – Q3 FY18

- Added to the kitchen appliance category with the launch of rice cookers in the markets of Andhra Pradesh and Telangana

- New addition to the 'Electricals' segment with the launch of modular switches in Kerala, which is a natural extension of the wire accessories and switchgear segment

- Undergoing a brand rejuvenation exercise which includes the rolling out of a new brand identity in the coming quarter to reflect the company's transformation into a leading multi-product, pan-India player in the Consumer Electricals space

- Board has approved raising of funds up to an aggregate of Rs. 500 crore through debt or equity or a combination of both

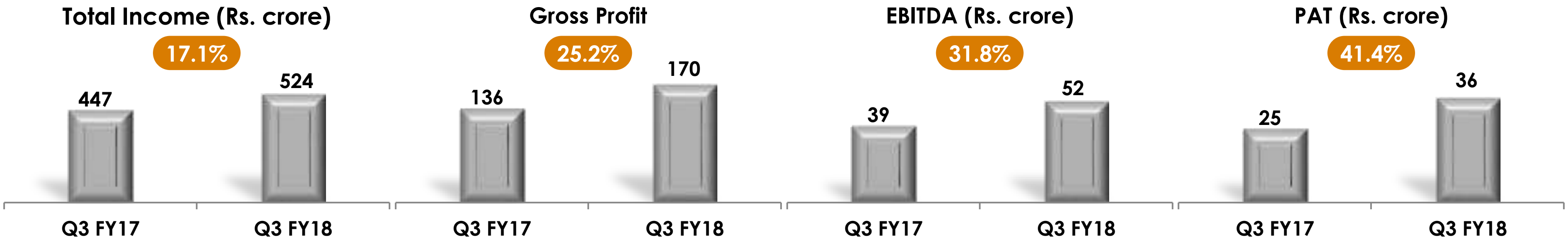
Ind-AS Impact on V-Guard

Key Ind-AS Adjustments

- Turnover is net of cash discount & schemes (under IGAAP, the cash discounts were included in other expenses)
- Excise duty to be grossed with turnover and shown as expense (under IGAAP, excise duty was netted with turnover)
- ESOP valuation under fair valuation method under Ind-AS (under IGAAP, ESOP valuation was under intrinsic value method)
- Minor impact on Provision for doubtful debts, sales return and revenue cutoff
- Comparable prior period numbers have been restated in compliance with Ind-AS

Financial Highlights (Q3 FY18 vs Q3 FY17)

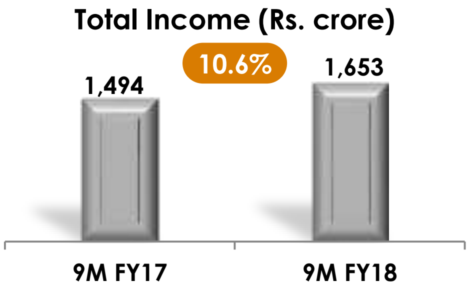
Note: *V-Guard adopted Ind-AS framework starting Q1 FY18. Comparable prior period numbers have been restated in compliance with Ind-AS .*

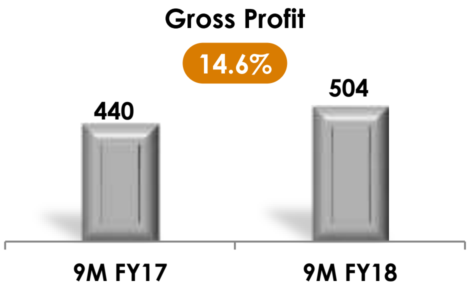


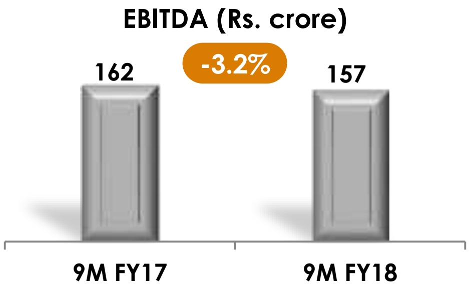
Key ratios (%)	Q3 FY18	Q3 FY17
Gross Margin	32.4%	30.3%
EBITDA Margin	9.9%	8.8%
Net Margin	6.8%	5.7%
Ad Expenditure (incl. promotions)/Total Revenues	5.7%	6.2%
Employee Cost/ Total Operating Income	8.2%	8.1%
Other Expenditure/ Total Operating Income	14.8%	14.2%
Tax rate	23.4%	27.2%
Diluted EPS (Rs.)	0.82	0.59

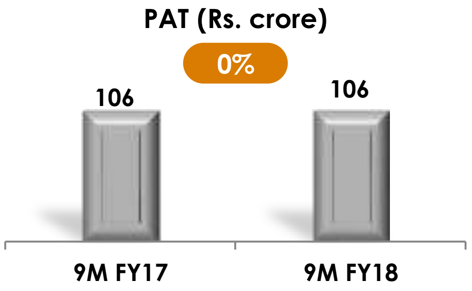
Financial Highlights (9M FY18 vs 9M FY17)

Note: *V-Guard adopted Ind-AS framework starting Q1 FY18. Comparable prior period numbers have been restated in compliance with Ind-AS .*









Key ratios (%)	9M FY18	9M FY17
Gross Margin	30.5%	29.4%
EBITDA Margin	9.5%	10.8%
Net Margin	6.4%	7.1%
Ad Expenditure (incl. promotions)/Total Revenues	5.4%	5.2%
Staff Cost/ Total Operating Income	7.8%	6.8%
Other Expenditure/ Total Operating Income	13.7%	12.5%
Tax rate	25.4%	28.9%
Diluted EPS (Rs.)	2.43	2.47

Financial Highlights – Balance Sheet Perspective

Balance Sheet Snapshot (Rs. cr)	31 Dec 2017	30 Sep 2017	31 Dec 2016
Net worth	716.3	677.0	586.1
Gross debt	3.3	4.5	8.0
Current Investments	104.1	101.0	136.6
Cash and cash equivalents	4.1	6.2	3.5
Net Cash Position (Rs. crore)	104.9	102.6	132.0
Fixed Assets	204.4	198.9	167.7

Key Ratios	31 Dec 2017	30 Sep 2017	31 Dec 2016
Debtor (days)	56	52	46
Inventory (days)	77	66	78
Creditor (days)	65	54	53
Working Capital Turnover (days)	68	64	71
RoE* (%)	20.0%	27.5%	17.3%
RoCE* (%)	24.7%	36.4%	21.3%

Calculations are based on a* ***quarterly annualized basis*

Note: *V-Guard adopted Ind-AS framework starting Q1 FY18. Comparable prior period numbers have been restated in compliance with Ind-AS .*

Segment-wise Breakup of Revenues – Q3 FY18 vs Q3 FY17

Note: V-Guard adopted Ind-AS framework starting Q1 FY18. Comparable prior period numbers have been restated in compliance with Ind-AS.

Category	Q3 FY2018 (Rs. cr.)	Contribution (%)	Q3 FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Electronics	129.3	24.7%	117.8	26.3%	9.8%
Electricals	245.4	46.9%	203.3	45.5%	20.7%
Consumer Durables	148.8	28.4%	126.2	28.2%	17.9%
Grand Total	**523.5**	**100.0%**	**447.2**	**100.0%**	17.1%

Products	Q3 FY2018 (Rs. cr.)	Contribution (%)	Q3 FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	82.2	15.7%	82.1	18.4%	0.1%
UPS (Digital + Standalone)	47.1	9.0%	35.6	8.0%	32.3%
Pumps	63.1	12.1%	58.5	13.1%	7.9%
Cables & Wires (PVC + LT)	169.5	32.4%	136.2	30.4%	24.5%
Water Heaters (Electric + Solar)	96.8	18.5%	89.3	20.0%	8.4%
Fans	39.8	7.6%	29.0	6.5%	37.5%
Kitchen Appliances (Cooktops + Mixers)	12.2	2.3%	7.9	1.8%	54.2%
Switchgears	12.8	2.4%	8.7	1.9%	47.4%
GRAND TOTAL	**523.5**	**100%**	**447.2**	**100%**	**17.1%**

Electronics – Stabilizers, UPS, Solar Inverter
Electricals – Cables& Wires, Pumps, Switchgears
Consumer Durables – Fans, Water Heaters, Kitchen Appliances

Segment-wise Breakup of Revenues – 9M FY18 vs 9M FY17

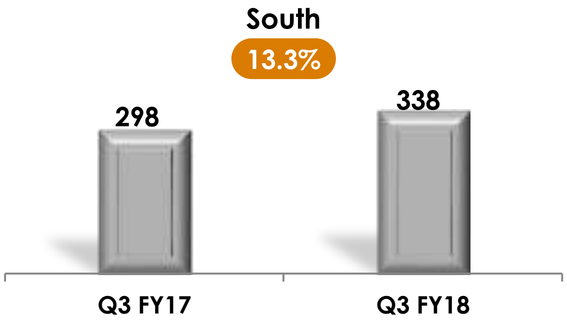
Note: V-Guard adopted Ind-AS framework starting Q1 FY18. Comparable prior period numbers have been restated in compliance with Ind-AS.

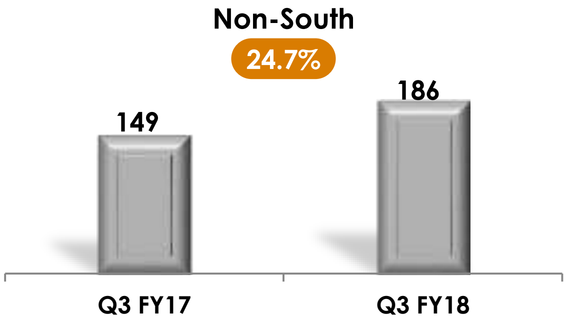
Category	9M FY2018 (Rs. cr.)	Contribution (%)	9M FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Electronics	520.7	31.5%	472.0	31.6%	10.3%
Electricals	715.4	43.3%	645.1	43.2%	10.9%
Consumer Durables	416.5	25.2%	376.8	25.2%	10.5%
Grand Total	**1,652.5**	**100.0%**	**1,493.9**	**100.0%**	10.6%

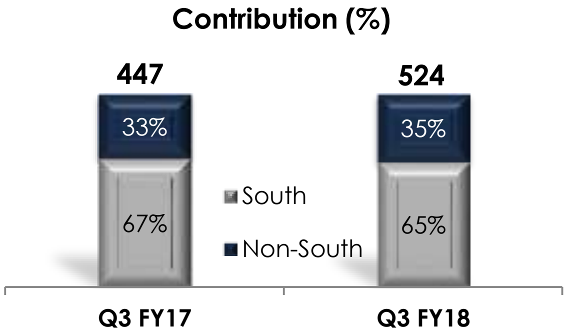
Products	9M FY2018 (Rs. cr.)	Contribution (%)	9M FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	321.9	19.5%	305.9	20.5%	5.2%
UPS (Digital + Standalone)	198.8	12.0%	166.0	11.1%	19.7%
Pumps	188.2	11.4%	173.1	11.6%	8.7%
Cables & Wires (PVC + LT)	491.6	29.8%	444.4	29.7%	10.6%
Water Heaters (Electric + Solar)	238.7	14.4%	222.1	14.9%	7.5%
Fans	133.6	8.1%	120.3	8.1%	11.0%
Kitchen Appliances (Cooktops + Mixers)	44.3	2.7%	34.4	2.3%	28.5%
Switchgears	35.5	2.2%	27.6	1.8%	28.6%
GRAND TOTAL	**1,652.5**	**100.0%**	**1,493.9**	**100.0%**	**10.6%**

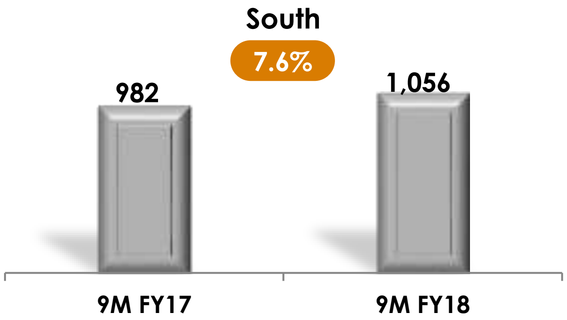
Electronics – Stabilizers, UPS, Solar Inverter
Electricals – Cables& Wires, Pumps, Switchgears
Consumer Durables – Fans, Water Heaters, Kitchen Appliances

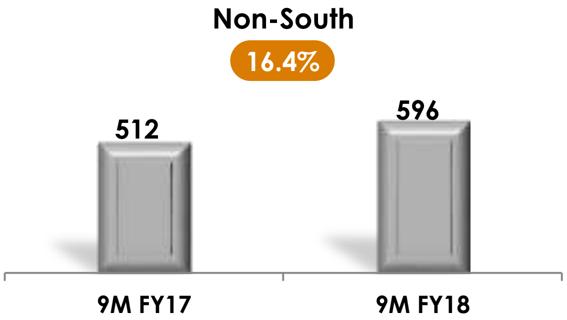
Geographical Breakup of Revenues

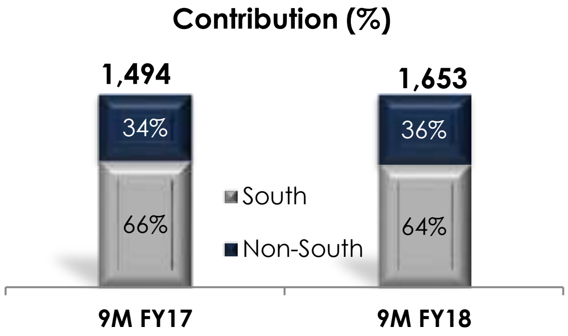












Business Outlook

- The Company is confident of achieving a 15% CAGR growth over the next few years.
- The Company envisages adding 15,000 retailers across the country over the next five years with higher addition in the non-South region. The Company is also looking to use online platforms like salesforce.com for more effective sales and distribution.
- The Company will maintain its thrust on advertising and promotions to increase its brand visibility and penetration in the non-South markets. The non-South markets currently account for ~40% of the revenue. Two-thirds of the Company's distribution network has already been established in the non-South region. This provides significant potential for revenue growth and operating leverage to expand on existing investments. The Company envisages the non-South markets to contribute to 50% over the next five years.
- The Company will be extending its kitchen appliances and switchgears portfolio to the non-South markets during the current financial year. Further, efforts towards innovation, R&D and product development will continue to be made in order to roll out differentiated offerings in a competitive industry.
- The cash positive balance sheet provides an opportunity to pursue inorganic opportunities, if valuations favor. We are looking at companies having product range synergy with V-Guard, providing manufacturing capabilities or strong regional players where V-Guard can expand its geographic footprint.

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 30 branches nationwide • Network of over 676 distributors, 5,975 channel partners and over 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 17% and 24% between FY12-17 • ROE at 23.8% and ROCE at 30.7% for FY2016

Production Model

PVC Cable Factory

LT Cable Factory

Solar Water Heater Factory

Stabilizer Manufacturing Units

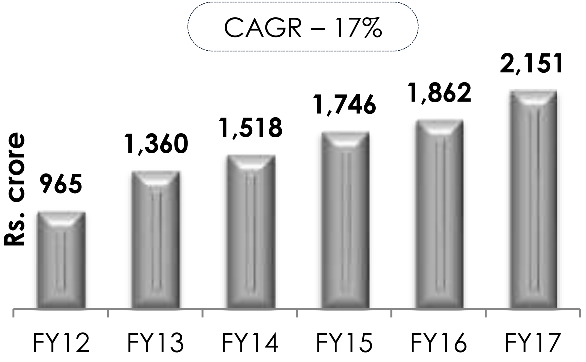
Product	No. of Units	Location
Own Manufacturing Facilities		
PVC Wiring Cables	2	Coimbatore, Kashipur
LT Cables	1	Coimbatore
Pumps & Motors	1	Coimbatore
Fans	1	Himachal Pradesh
Water Heater	2	Himachal Pradesh, Sikkim
Solar Water Heaters	1	Perundhurai
Stabilizers	2	Sikkim
Outsourced production facilities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

Outsourcing Objectives

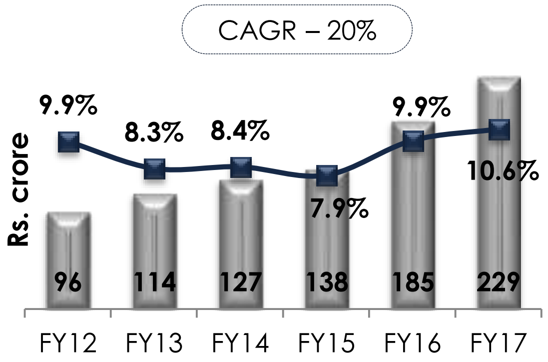
- Asset light model outsourcing ~60% products
- Complete control over supply chain ecosystem
- R&D support to vendors' technical teams
- Quality assurance official posted at vendors' production units to ensure maintenance of quality
- Owns all its designs and moulds
- Helps procure raw material for the 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 (FY12-17)

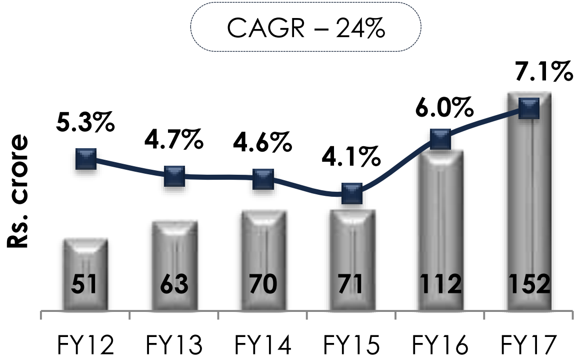
Revenue

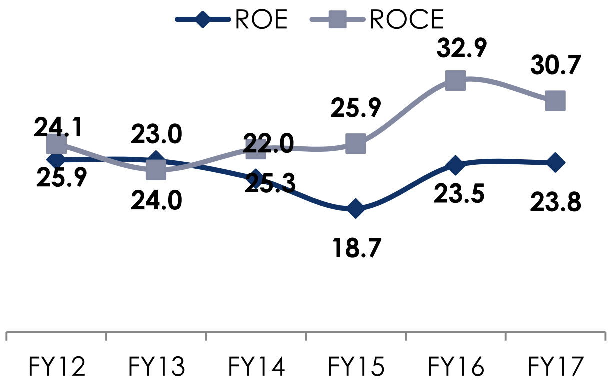


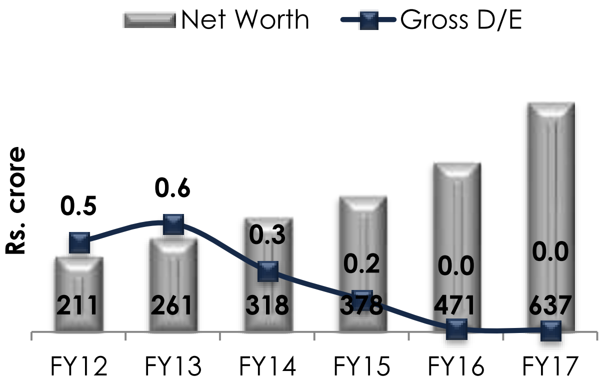
EBITDA and EBITDA Margins



PAT and PAT Margins

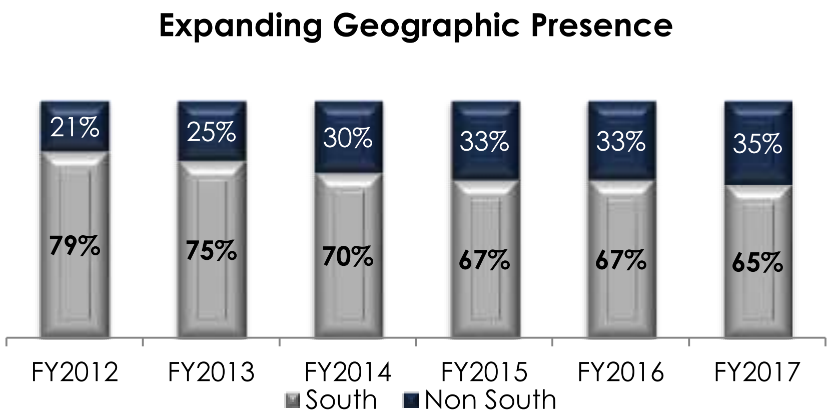


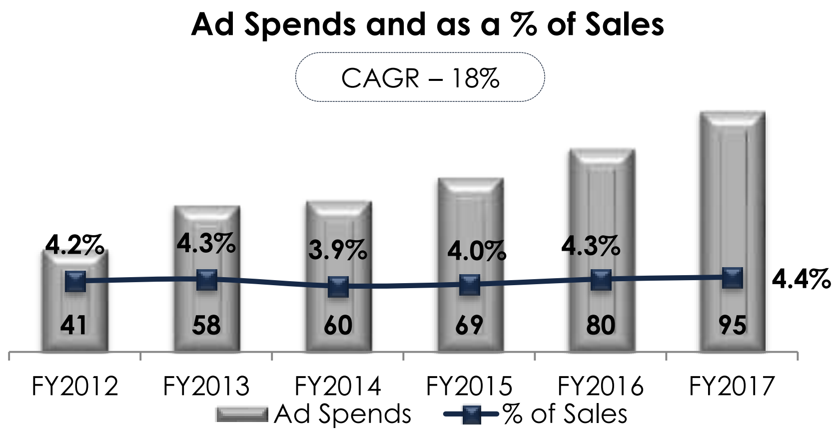


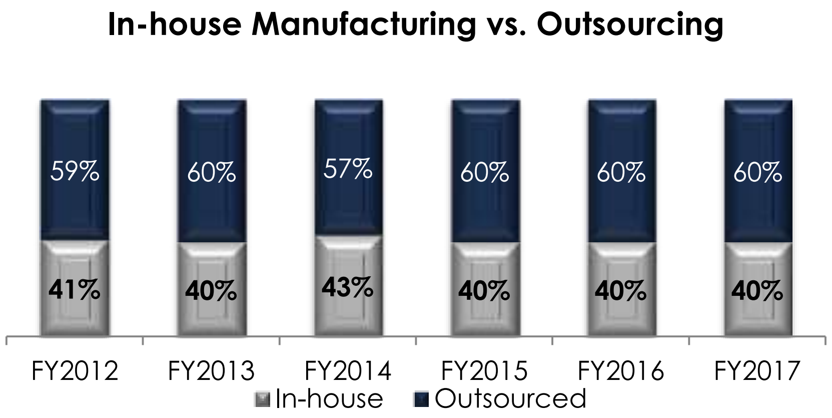


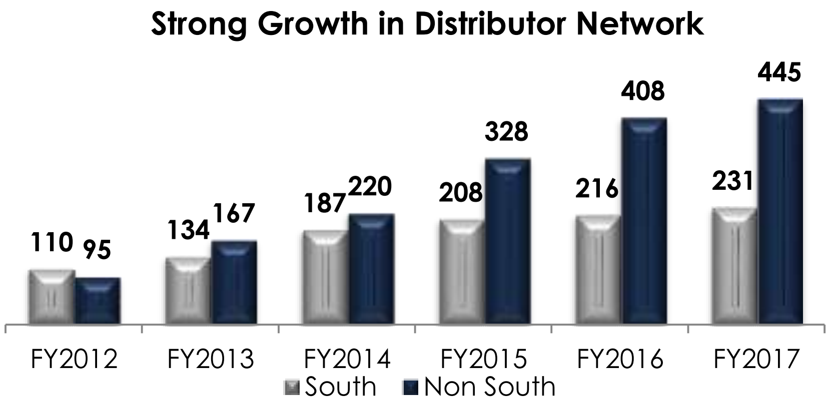
Note: *Numbers are in IGAAP.*

Operational Highlights (FY12-17)







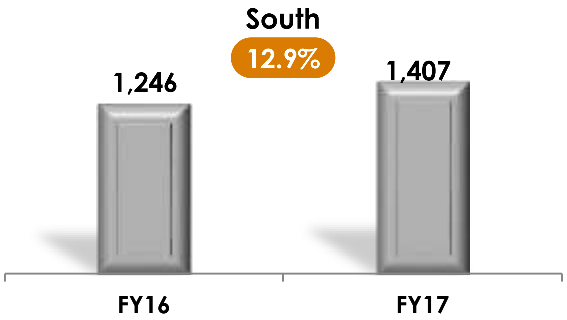


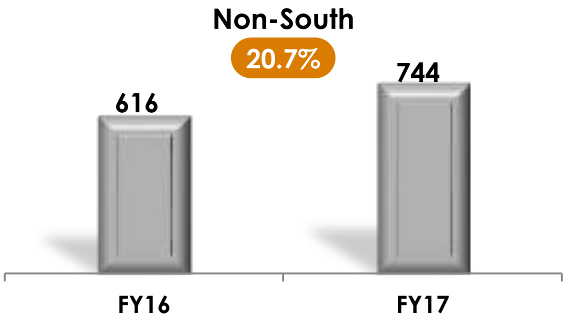
Segment-wise Breakup of Revenues – FY17 vs FY16

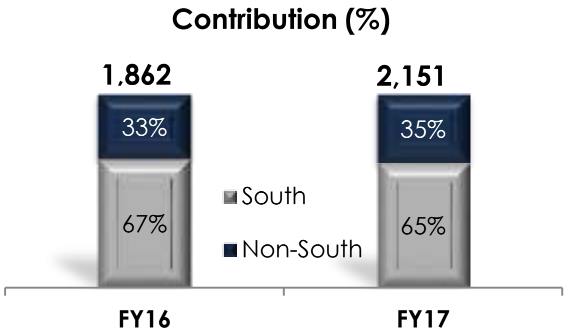
Products	FY2017 (Rs. cr.)	Contribution (%)	FY2016 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	436.2	20.3%	369.1	19.8%	18.2%
UPS (Digital + Standalone)	235.1	10.9%	193.6	10.4%	21.4%
Pumps	268.5	12.5%	210.0	11.3%	27.9%
Cables & Wires (PVC + LT)	633.5	29.5%	588.6	31.6%	7.6%
Water Heaters (Electric + Solar)	284.3	13.2%	255.4	13.7%	11.3%
Fan	206.0	9.6%	176.7	9.5%	16.6%
Kitchen Appliances (Induction Cooktops + Mixers)	44.5	2.1%	35.8	1.9%	24.3%
Switchgears	42.5	2.0%	33.0	1.8%	28.7%
GRAND TOTAL	**2,150.6**	**100.0%**	**1,862.3**	**100%**	**15.5%**

Note: *Numbers are in IGAAP.*

Geographical Breakup of Revenues







Note: *Numbers are in IGAAP.*

Market Size across Product Segments

Product	Market Size (Rs. Crore)*			Key Players	Production Model	Distribution Channel Strategy
	Organized	Unorganized	Total			
 STABILIZERS	700.00	550.00	1,250.00	Micro tech, Livguard, Bluebird, Capri, Logicstat, Premier, Everest	90% Outsourced	Consumer Durable stores, Electrical and Hardware Stores
 PVC CABLES	5,500.00	4,000.00	9,500.00	Polycab, Havells, Finloex, RR Cables, Anchor	100% In-House	Electrical and Hardware Stores
 COOKTOPS	420.00 - 450.00	180.00 – 200.00	600.00 - 650.00	Prestige, Bajaj Electrials, TTK Prestige, Preethi, Butterfly	100% In-House	Consumer Durables / Kitchen Appliances stores

**Company estimates FY16*

Market Size across Product Segments

Product	Market Size (Rs. Crore)*			Key Players	Production Model	Distribution Channel Strategy
	Organized	Unorganized	Total			
 MOTOR PUMPS	5,000.00	5,000.00	10,000.00	Crompton Greaves, Kirloskar, CRI, Texmo	90% Outsourced	Electrical and hardware Stores, Pump and Pipe fittings Stores
 WATER HEATERS	1,325.00	700.00	2,025.00	A.O. Smith, Racold, Bajaj, Venus, Crompton Greaves, Usha	55% Outsourced	Consumer Durable stores , Electrical and Hardware Stores
 FANS	5,000.00	1,500.00	6,500.00	Crompton, Usha, Bajaj Electricals, Havells, Orient	90 % Outsourced	Consumer Durable stores , Electrical and Hardware Stores

**Company estimates FY16*

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	4,500.00	750.00	5,250.00	Microtek, Luminous, Su-Kam, Exide	Outsourced	Consumer Durable stores, Electrical and Hardware stores, Battery Retail stores
 SOLAR WATER HEATER	420.00	180.00	600.00	Racold, Emmvee Solar, Sudarshan, Supreme	100% In-House	Direct Marketing Channel

Company estimates FY16

Market Size across Product Segments

Product	Market Size (Rs. Crore)*			Key Players	Production Model	Distribution Channel Strategy
	Organized	Unorganized	Total			
 SWITCHGEAR	1,400.00	600.00	2,000.00^	Havells, Legrand, L&T, ABB	100% Outsourced	Electrical stores
 GAS STOVES	1,000.00	1,000.00	2,000.00	Butterfly (glass top), Sun Flame (steel)	100% Outsourced	Consumer Durables / Kitchen Appliances stores
 MIXER GRINDERS	1,500.00	1,000.00	2,500.00	Preethi, Bajaj Electricals, Butterfly, Panasonic	100% Outsourced	Consumer Durables / Kitchen Appliances stores

*Company estimates; ^The market size where V-Guard is present; total domestic switchgear market estimated at Rs. 4,000 crore

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, 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 29 branches, 624 distributors, 5,562 channel partners and ~25,000+ retailers across the country.

For further information, please contact:

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THANK YOU