



V-Guard Industries

Q1 FY2017 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 Q1 FY17, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,

"We have started the year on a positive note, recording our highest ever quarterly sales and profit in Q1, which is a seasonally strong quarter for us. Topline growth of 14.7% YoY in Q1 was led by broad-based growth across all our product categories, especially stabilizers, UPS, pumps and fans. Realisations in the cables and wires, our largest revenue segment, continue to be subdued on account of decline in commodity prices as compared to corresponding quarter of last year, despite seeing healthy volume growth. Excluding cables and wires, revenue growth for Q1 FY17 stood at 21.5%. Overall PAT grew 70% YoY to Rs. 48.2 crore in Q1 FY17.

Our efforts to improve demand and supply planning, inventory management, focus on quality of revenue and other value engineering activities have helped us drive operational excellence. We have reduced cost of purchases across divisions, resulting in 300 bps YoY expansion in gross margins to 30.9% while EBITDA margins at 11.7%, were up 270 bps YoY. Our working capital cycle improved by 21 days YoY / 6 days QoQ to 54 days of sales, led mainly by a reduction in inventory levels and better credit terms negotiated with our suppliers. We have seen robust cash generation of almost Rs. 100 crore in Q1 as compared to Rs. 135 crore generated in full year FY16.

To conclude, this has been a solid start to the year. Through our sustained investments in people, products and processes, we are putting in place a solid foundation for sustainable long term growth. We will increase our thrust on advertising and brand building, especially in the non-south markets to gain market share. We will continue to invest judiciously, expanding our distribution network and furthering our channel relationships. Our lean balance sheet offers the flexibility to add new product categories as well as pursue inorganic opportunities."

Key Highlights – Q1 FY2017

Revenue growth of ~15% YoY at Rs. 573 crore

- Strong summer season contributed to the healthy growth
- Broad-based growth across product categories led by stabilizers segment (+22% YoY), UPS segment (+25% YoY), pumps segment (+32% YoY) and Fans segment (+20% YoY)

Gross margin expands 300 bps YoY and 20 bps QoQ to 30.9%

- Gross profit up 27% YoY and 12% QoQ to Rs. 177 crore
- Led by lower input costs, inventory management and spreading of fixed overheads over strong sales growth

EBITDA margins at 11.7%, up 270 bps YoY

- EBITDA growth of 48.5% YoY to Rs. 66.9 crore, despite higher ad expenditure
- Ad expenditure to sales at 5.0% vs 4.9% in Q1 FY16 and 3.8% in Q4 FY16

PAT growth of 70% YoY and 2% QoQ to Rs. 42.8 crore

- PAT margin improves 250 bps YoY to 7.5%
- Led by better EBITDA margins and reduced finance costs

Working capital cycle improve by 21 days YoY / 6 days QoQ

- Working capital cycle at 54 days
- Inventory days improve by 15 days YoY and 2 days QoQ
- Creditor days up 7 days YoY and 10 days QoQ

Strong return ratios

- ROE and ROCE of 25.1% and 34.6% respectively (TTM)

Robust cash generation

- CFO strong at Rs. 99.4 crore during Q1 FY17 as compared to Rs. 134.2 crore for full year FY16
- D/E at 0.02x as on 30th June 2016 as compared to 0.13x as on 30th June 2015

Business Updates

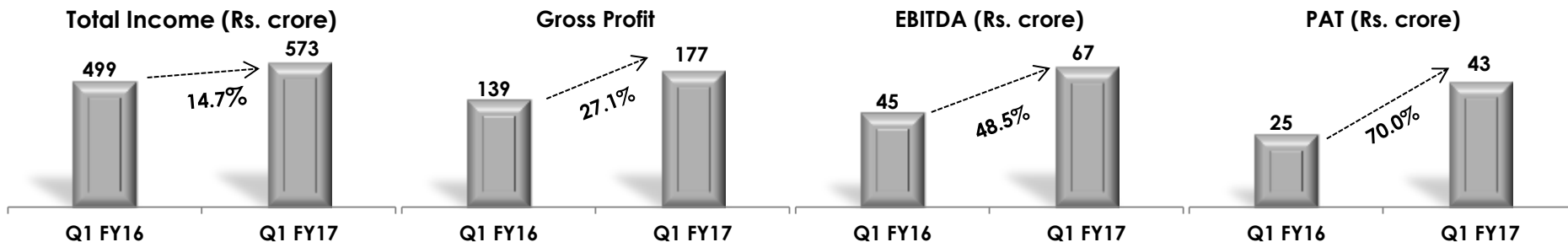
New Product Launches

- Launched, IOT-enabled water heater, first of its kind by any company in India
- To launch gas stoves in Q2 FY17, another addition to the kitchen appliance category

Backward Integration

- Set up in-house PVC compounding unit at Chavadi, Coimbatore
- Unit expected to commence commercial production from August, 2016

Financial Highlights (Q1 FY17 vs Q1 FY16)



Key ratios (%)	Q1 FY17	Q1 FY16
Gross Margin	30.9%	27.9%
EBITDA Margin	11.7%	9.0%
Net Margin	7.5%	5.0%
Ad Expenditure (incl. promotions)/Total Revenues	5.0%	4.9%
Staff Cost/ Total Operating Income	5.4%	5.3%
Other Expenditure/ Total Operating Income	6.7%	6.7%
Tax rate	31.5%	32.4%
EPS (Rs.)	14.22	8.39

Financial Highlights – Balance Sheet Perspective

Balance Sheet Snapshot (Rs. crore)	30 June 2016	31 March 2016	30 June 2015
Net worth	514.6	476.2	403.6
Total debt	8.1	10.4	52.5
○ Working capital	0.0	1.5	24.0
○ Term loan	8.1	8.9	28.5
Acceptances	7.7	4.0	33.5
Fixed Assets	159.7	161.1	160.1

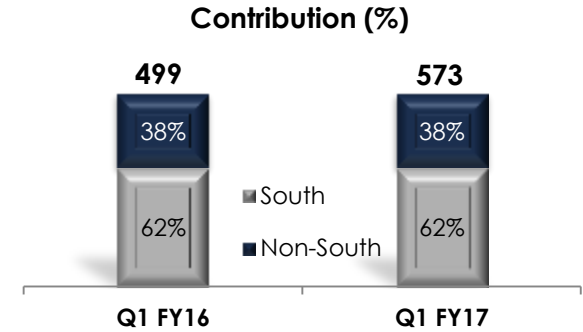
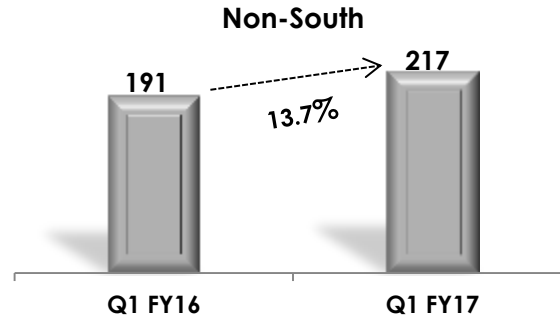
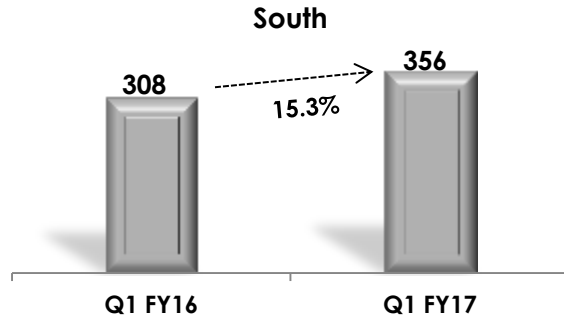
Key Ratios	30 June 2016	31 March 2016	30 June 2015
Debtor (days)	50	55	51
Inventory (days)	55	57	70
Creditor (days)	52	42	45
Working Capital Turnover (days)	54	70	75
RoE (%)	25%	23%	18%
RoCE (%)	35%	33%	26%
Gross Debt / Equity (x)	0.02	0.02	0.13

Please note all calculations are based on a TTM basis

Segment-wise Breakup of Revenues – Q1 FY17 vs Q1 FY16

Products	Q1 FY2017 (Rs. cr.)	Contribution (%)	Q1 FY2016 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	145.5	25.4%	119.7	24.0%	21.6%
UPS (Digital + Standalone)	74.9	13.1%	59.7	12.0%	25.5%
Electronics Segment Total	220.4	38.5%	179.4	36%	22.9%
Pumps	67.9	11.8%	51.3	10.3%	32.2%
Cables & Wires (PVC + LT)	153.8	26.8%	154.5	30.9%	-0.5%
Water Heaters (Electric + Solar)	51.8	9.0%	49.6	9.9%	4.4%
Fan	60.0	10.5%	50.1	10.0%	19.8%
Electricals Segment Total	333.4	58.2%	305.5	61%	9.1%
Kitchen Appliances (Induction Cooktops + Mixers)	8.7	1.5%	7.3	1.5%	19.2%
Switchgears	10.1	1.8%	7.1	1.4%	42.2%
New Products Total	18.8	3.3%	14.4	3%	30.6%
GRAND TOTAL	572.7	100.0%	499.3	100%	14.7%

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 FY2017

Working Capital Efficiencies

- Target to reduce cash conversion cycle 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 29 branches nationwide
- Network of over 638 distributors, 5,760 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 22% and 23% between FY11-16
- ROE at 23.5% and ROCE at 32.9% for FY2016

Production Model



PVC Cable Factory



LT Cable Factory



Solar Water Heater Factory



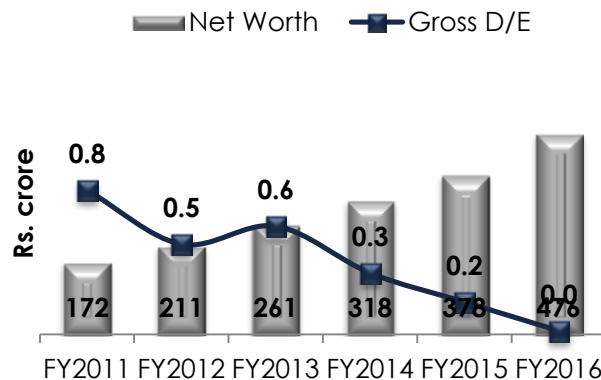
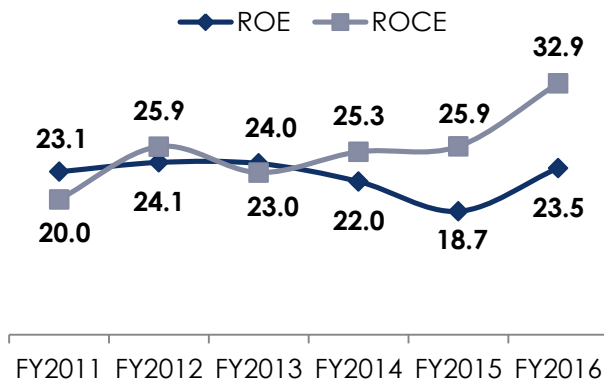
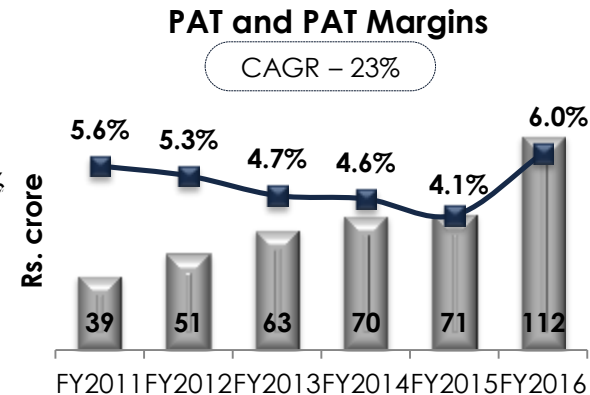
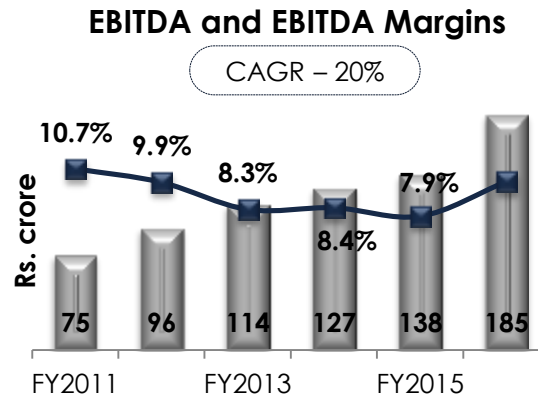
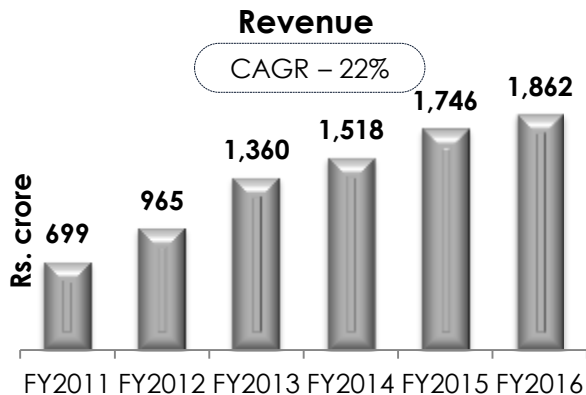
Stabilizer Manufacturing Units

Product	No. of Units	Location
Own Manufacturing Facilities		
PVC Wiring Cables	2	Coimbatore, Kashipur
LT Cables	1	Coimbatore
Pumps & Motors	1	Coimbatore
Fans	1	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

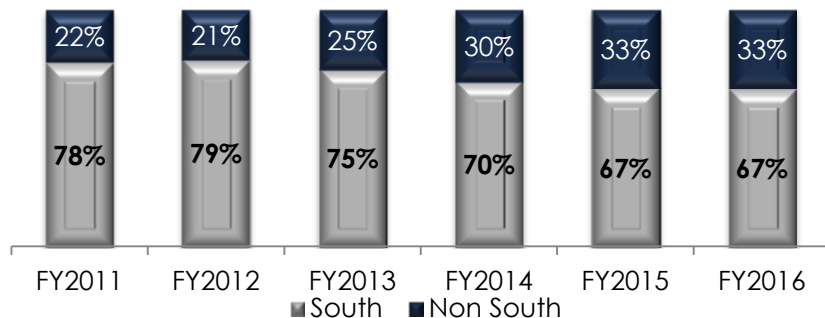
- Asset light model outsourcing ~60% products
- Complete control over supply chain ecosystem
- R&D support to vendors' technical teams
- Quality assurance official posted at vendors' production units to ensure maintenance of quality
- Owns all its designs and moulds
- Helps procure raw material for the 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 (FY11-16)

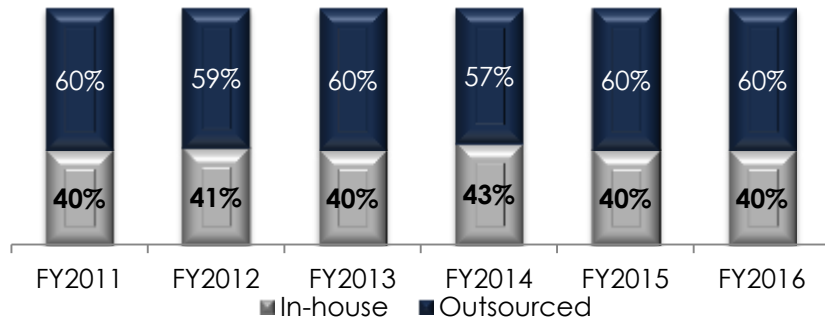


Operational Highlights (FY11-16)

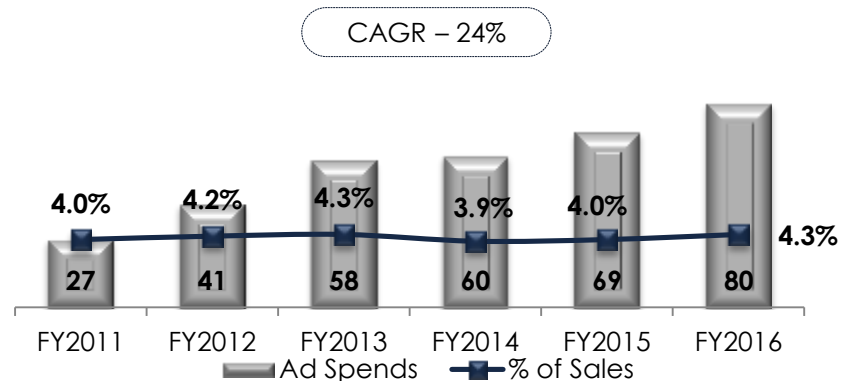
Expanding Geographic Presence



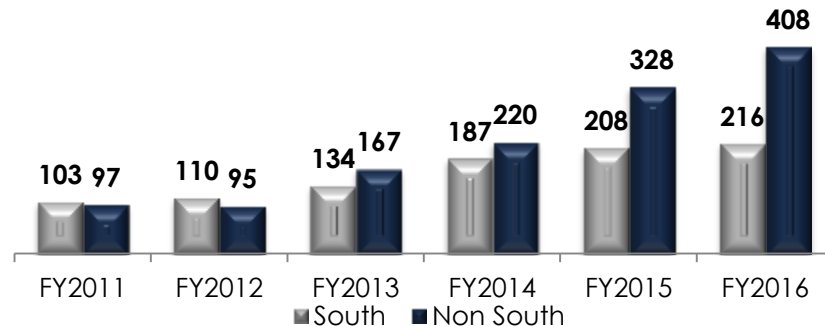
In-house Manufacturing vs. Outsourcing



Ad Spends and as a % of Sales



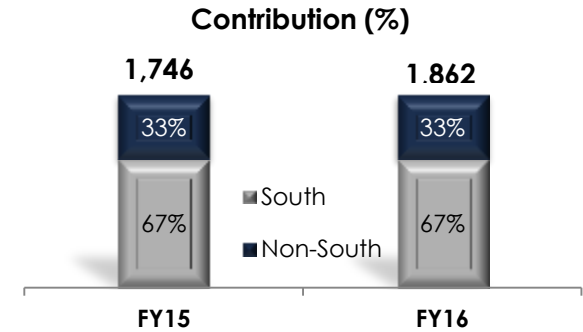
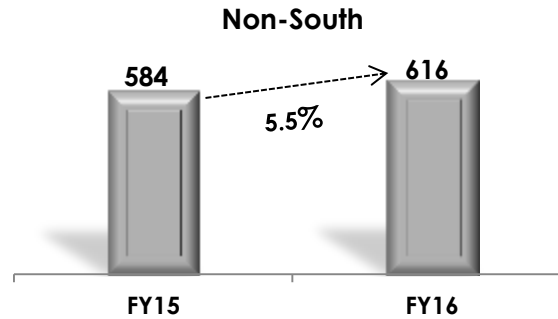
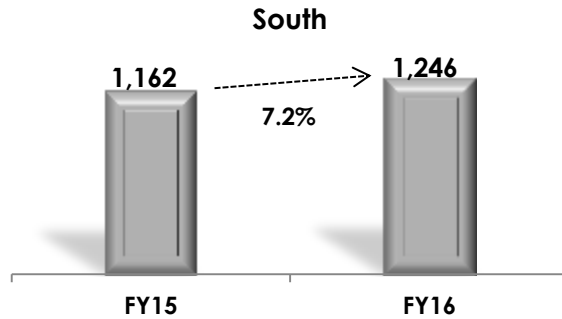
Strong Growth in Dealer Network



Segment-wise Breakup of Revenues – FY16 vs FY15

Products	FY2016 (Rs. cr.)	Contribution (%)	FY2015 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	369.1	19.8%	326.8	18.7%	13.0%
UPS (Digital + Standalone)	193.6	10.4%	222.1	12.7%	-12.8%
Electronics Segment Total	562.7	30.2%	548.9	31%	2.5%
Pumps	210.0	11.3%	189.0	10.8%	11.1%
Cables & Wires (PVC + LT)	588.6	31.6%	583.7	33.4%	0.8%
Water Heaters (Electric + Solar)	255.4	13.7%	228.0	13.1%	12.0%
Fan	176.7	9.5%	137.5	7.9%	28.5%
Electricals Segment Total	1,230.7	66.1%	1,138.1	65%	8.1%
Kitchen Appliances (Induction Cooktops + Mixers)	35.8	1.9%	36.9	2.1%	-2.9%
Switchgears	33.0	1.8%	22.1	1.3%	49.6%
New Products Total	68.8	3.7%	58.9	3%	16.8%
GRAND TOTAL	1,862.3	100.0%	1,745.9	100%	6.7%

Geographical Breakup of Revenues



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

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THANK YOU