

V-Guard Industries

Q1 FY21 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 Q1 FY21, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said, "While headline numbers during Q1 indicate the effect of the Covid-19 pandemic along expected lines, we believe that the business has demonstrated strong resilience in facing these extremely challenging times. While the nationwide lockdown brought revenues down to almost zero in April and early part of May, we have scaled up rapidly thereafter to reach 70% of last year's revenues in the month of May and 90% in June. With the improving performance during June, gross margins have once again reverted to levels that are comparable to last year.

Looking at our revenue segments, non-South saw a larger impact due to more extended lockdowns during the quarter, whereas opening up in the South saw improved demand in states such as Karnataka and Kerala. Our Electronics business segment has seen a sharper decline based on its linkage with appliances that see larger demand in the summer season.

Along with topline weakness, related expenses such as warranty costs, A&P spends, traveling etc have reduced commensurately. We have also used this opportunity to further focus on opex control. Further, working capital has improved sharply as available inventory has been used to drive revenues, even as manufacturing activities were stalled due to restrictions. Collections from the channel have driven down debtor days towards the end of the quarter.

Going forward, we remain cautious in the near term as localized lockdowns may cause market closures in different parts of the country from time to time and discretionary demand may remain subdued in this turbulent period. However, we expect that strengths associated with our brand, distribution and product range and our learnings of the last few months would create opportunities for longer term growth."

Key Highlights – Q1 FY21



Revenue lower by 42% YoY in Q1 FY21

- Q1 FY21 revenue declined by 42% YoY to Rs. 405.8 crore
- Non-South market revenues declined by 47% while South markets were lower by 37.7%
- South markets' contribution increased to 58.3% of the net revenue in Q1 FY21 compared to 54.3% in Q1 FY20
- Pricing actions and focus on premiumization of portfolio have been key focus areas

EBITDA and PAT decline based on lower business volumes

- Gross margins contracted 334 bps YoY to 29.2% owing to factory and market closures during the lockdown; albeit, progressively improved towards the end of May and in June as operations picked up
- EBITDA margins (excl. other income) at 2.2% as compared to 10.2%, due to decline in business volumes
- Ad/promotional spends (exclusive of schemes) lower at 0.8% of revenue sales in Q1 FY21 as compared to 2.9% in Q1 FY20
- Q1 FY21 PAT of Rs. 3.6 crore, down 93.1%; PAT margin at 0.9% as against 7.5% in Q1 FY20

Strong cash flow generation; robust balance sheet

- Strong CFO generation at the end of Q1 FY21 of Rs. 215.65 crore as compared to Rs. 182.50 crore in Q1 FY20
- ROE and ROCE at 13.6% and 16.1% respectively (TTM basis) at the end of Q1 FY21
- Net cash of Rs. 349.3 crore on balance sheet as on 30th June, 2020, as against Rs. 324.6 crore in June, 2019.

Note: In Q1FY21, Advertising and Promotion Expenditure has been calculated by adding the expenses incurred on ATL (mass advertising) and BTL (localized campaigns) items. Previously, Advertising and Promotion Expenditure used to be calculated by aggregating ATL, BTL and cost of schemes offered to distributors and dealers. Previous period data included in this presentation has been re-calculated to facilitate a like-to-like comparison.

P&L Snapshot



P&L Statement Particulars	Q1 FY21 (Rs. Cr)	Q1 FY20 (Rs. Cr)	Change %	Q4 FY20 (Rs. Cr)	FY 20 (Rs. Cr)	FY 19 (Rs. Cr)	Change %
Net Revenue	405.83	699.39	-42.0%	536.63	2,481.96	2,566.44	-3.3%
COGS	287.26	471.71	-39.1%	357.75	1,658.20	1,799.18	-7.8%
Gross Margin	29.2%	32.6%	-3.3%	33.3%	33.2%	29.9%	3.3%
EBITDA (excluding other income)	9.06	71.12	-87.3%	45.16	253.27	219.42	15.4%
as a % to Net Revenue (NR)	2.2%	10.2%	-7.9%	8.4%	10.2%	8.5%	1.7%
Other Income (including finance income)	4.69	6.45	-27.3%	5.19	23.99	18.25	31.4%
EBITDA after other income	13.75	77.57	-82.3%	50.35	277.26	237.68	16.7%
as a % to NR	3.4%	11.1%	-7.7%	9.4%	11.2%	9.3%	1.9%
PBT	4.79	69.77	-93.1%	42.40	245.44	214.59	14.4%
as a % to NR	1.2%	10.0%	-8.8%	7.9%	9.9%	8.4%	1.5%
PAT	3.62	52.45	-93.1%	32.51	185.16	165.53	11.9%
as a % to NR	0.9%	7.5%	-6.6%	6.1%	7.5%	6.4%	1.0%

Note: Adopted Ind-AS 116 (Leases) from April 1, 2019. The impact on Profit Before Tax is not material.

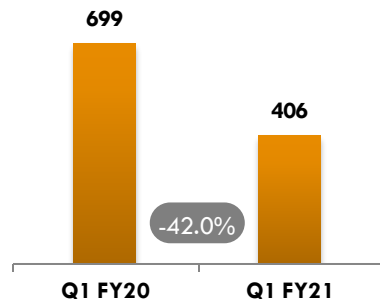
Gross Margin Movement (Q1 FY21 vs. Q1 FY20)

Particulars (in Rs. Cr)	Q1 FY21				Q1 FY20			
	April	May	June	Total	April	May	June	Total
Turnover	4.52	183.80	217.50	405.82	199.34	258.63	241.42	699.39
Gross Profit	0.59	46.69	71.30	118.57	60.50	83.71	83.47	227.68
Gross Margin	13.0%	25.4%	32.8%	29.2%	30.4%	32.4%	34.6%	32.6%

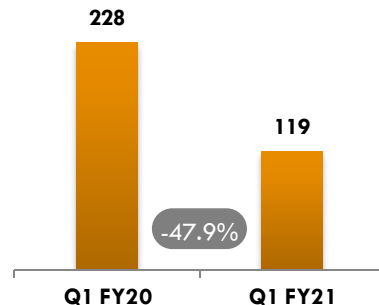
- Gross margin for Q1 FY21 are lower due to factory & market closures during lockdown
- Factories and warehouses were closed during April and part of May
- Margins progressively improved as operations increased in the later part of May and June

Financial Highlights (Q1 FY21 vs. Q1 FY20)

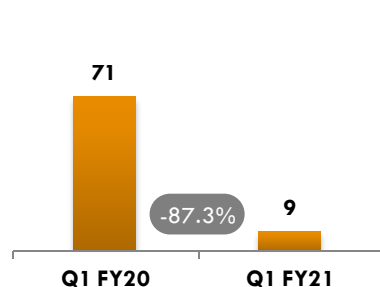
Total Income (Rs. crore)



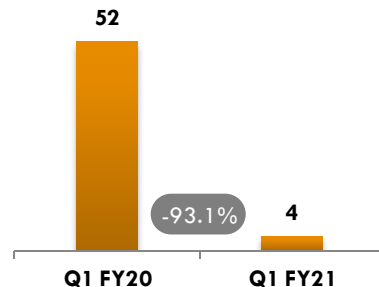
Gross Profit



EBITDA (Rs. crore)



PAT (Rs. crore)



Key ratios (%)	Q1 FY21	Q1 FY20
Gross Margin	29.2%	32.6%
EBITDA Margin (excl. other income)	2.2%	10.2%
Net Margin	0.9%	7.5%
Ad & Promotion Exp. (excl. schemes)/Total Revenues	0.8%	2.9%
Employee Cost/ Total Operating Income	13.5%	8.6%
Other Expenditure/ Total Operating Income	13.5%	13.8%
Tax rate	24.4%	24.8%
Diluted EPS (Rs.)	0.08	1.21

Note: In Q1FY21, Advertising and Promotion Expenditure has been calculated by adding the expenses incurred on ATL (mass advertising) and BTL (localized campaigns) items. Previously, Advertising and Promotion Expenditure used to be calculated by aggregating ATL, BTL and cost of schemes offered to distributors and dealers. Previous period data included in this presentation has been re-calculated to facilitate a like-to-like comparison.

Financial Highlights – Balance Sheet Perspective



Balance Sheet Snapshot (Rs. Cr)	30 June 2020	31 March 2020	30 June 2019
Net worth	999.1	993.8	955.2
Gross debt	10.0	10.0	10.0
Current Investments	0.0	36.0	166.6
Cash and cash equivalents	359.3	111.5	168.0
Net Cash Position (Rs. crore)	349.3	137.5	324.6
Fixed Assets	329.7	334.4	268.6

Note: Increase in Fixed Assets to the tune of Rs 35.5 crore on account of adopted Ind-AS 116 from April 1, 2019.

Balance Sheet Snapshot (Rs. Cr)	30 June 2020	31 March 2020	30 June 2019
Debtor (days)	39	47	56
Inventory (days)	77	105	61
Creditor (days)	54	66	65
Working Capital Turnover (days)	61	86	51
RoE* (%)	13.6%	18.6%	19.2%
RoCE* (%)	16.1%	22.5%	22.9%

*Calculations are on a **trailing twelve month basis**

Segment-wise Breakup – Q1 FY21 vs. Q1 FY20



Segment Revenue	Q1 FY21 (Rs. Cr)	Contribution (%)	Q1 FY20 (Rs. Cr)	Contribution (%)	YoY growth (%)
Electronics	137.7	33.9%	282.8	40.4%	-51.3%
Electricals	182.7	45.0%	263.2	37.6%	-30.6%
Consumer Durables	85.5	21.1%	153.4	21.9%	-44.3%
Grand Total	405.8	100.0%	699.4	100.0%	-42.0%

Segment Result	Q1 FY21 (Rs. Cr)	Margin (%)	Q1 FY20 (Rs. Cr)	Margin (%)	YoY growth (%)
Electronics	9.3	6.8%	49.6	17.5%	-81.2%
Electricals	5.5	3.0%	13.2	5.0%	-57.9%
Consumer Durables	-8.7	-10.2%	6.6	4.3%	-231.9%
Grand Total	6.2	1.5%	69.4	9.9%	-91.1%

Electronics – Stabilizers, UPS, Solar Inverter; Electricals – Wires, Pumps, Switchgears, Modular Switches; Consumer Durables – Fans, Water Heaters, Kitchen Appliances, Air Coolers

Geographical Breakup of Revenues

Region	Q1 FY21 (Rs. Cr)	Contribution (%)	Q1 FY20 (Rs. Cr)	Contribution (%)	YoY growth (%)
South	236.4	58.3%	379.8	54.3%	-37.7%
Non-South	169.4	41.7%	319.6	45.7%	-47.0%
Total Revenue	405.8	100%	699.4	100%	-42.0%

Business Outlook



- The Company is confident of achieving a topline growth of 15% over the longer term driven by expansion into non-South markets and introduction of new product categories.
- The Company continues to undertake business strengthening initiatives and putting in place best in class processes and systems to future-proof the organization, including enhancing capabilities in new product development, quality control and salesforce automation.
- The Company envisages adding 3,000-5,000 retailers across the country every year over the next five years with higher addition in the non-South region.
- Going forward, the Company shall continue to build upon its competitive positioning in the consumer electricals, electronics and durables industry. The Company will maintain its thrust on advertising and promotions to increase its brand visibility and penetration in the non-South markets under its new brand identity reflecting the company's transformation into a leading multi-product, pan-India player in the Consumer Electricals space.
- 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.
- Efforts on innovation, R&D and product development will continue to be made in order to roll out differentiated offerings in a competitive industry. The Company has products that are connected, controlled and M2M capable and is bringing capabilities like machine learning as well. The Company is also building in auto diagnostics into devices, working on a digital strategy that includes looking at the predictive maintenance in plants, using Artificial Intelligence. In addition, the Company is focusing on Six Sigma, TPM, lean manufacturing, etc at our nine plants in India. The manufacturing execution system (MES) acts as an enabler for Industry 4.0, providing real-time factory data.
- The cash positive balance sheet enables the pursuit of inorganic opportunities, subject to valuations. The focus is on 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, Solar Inverter; **Electricals** – Wires, Pumps, Switchgears, Modular Switches; **Consumer Durables** – Fans, Water Heaters, Kitchen Appliances, Air Coolers
- Household consumption market will continue to grow at a significant pace going forward

Invested in a strong distribution network

- Spread over 31 branches nationwide
- Network of 40,000+ 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 ~55% of its products from a range of vendors
- Tie-ups with SSIs/self-help groups spread across southern India
- 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

Production Model



PVC Wires Factory



**Solar Water Heater
Factory**



Stabilizer Manufacturing Units

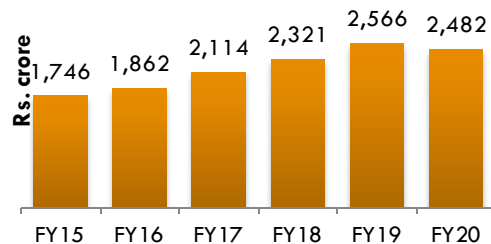
Product	No. of Units	Location
Own Manufacturing Facilities		
PVC Wiring Cables	2	Coimbatore, Kashipur
Pumps & Motors	1	Coimbatore
Fans	1	Himachal Pradesh
Water Heater	2	Himachal Pradesh, Sikkim
Solar Water Heaters	1	Perundurai
Stabilizers	2	Sikkim
Outsourced production facilities		
Stabilizers	57	Across India
Pumps	18	"
Fans	11	"
UPS	9	"

Outsourcing Objectives

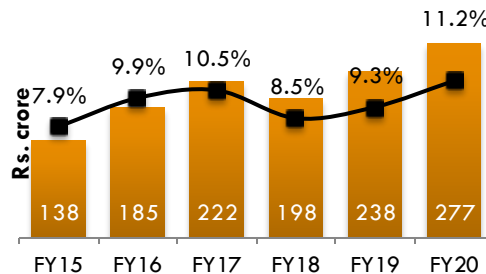
- Asset light model outsourcing ~55% products
- Complete control over supply chain ecosystem
- R&D support to vendors' technical teams
- Quality assurance official posted at vendors' production units to ensure maintenance of quality
- Owns all its designs and moulds
- Helps procure raw material for the vendors, negotiating price with the supplier
- Tie-ups with SSIs/self-help groups across Southern India for flagship product, Stabilizers
- Blended manufacturing policy helps optimize capex and working capital requirements

Financial Highlights (FY15-20)

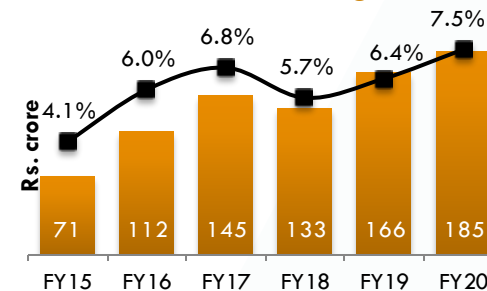
Revenue



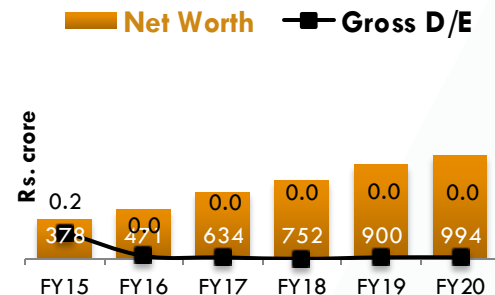
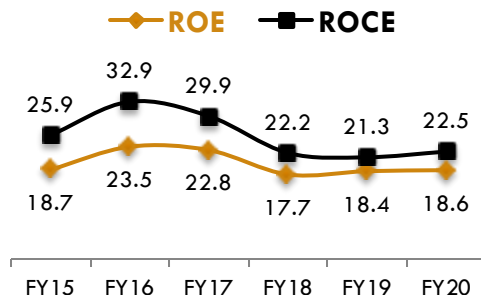
EBITDA and EBITDA Margins



PAT and PAT Margins



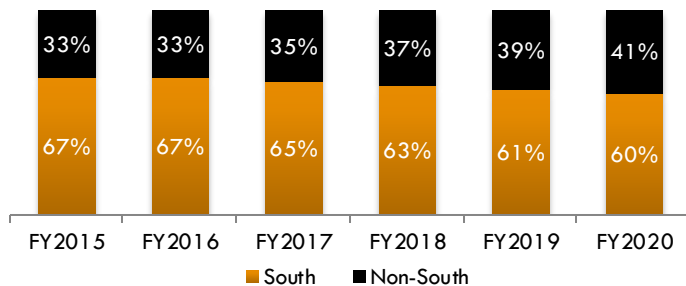
Note 1: Please note that consequent to the introduction of Goods and Service Tax (GST) with effect from July 01, 2017, Central Excise, Value Added Tax (VAT), etc. have been subsumed into GST. In accordance with Indian Accounting Standard - 18 on Revenue and Schedule III of the Companies Act, 2013, unlike Excise Duties, levies like GST, VAT, etc. are not part of Revenue. Hence, the revenue and growth calculations from FY18 onwards, are not strictly comparable with prior periods. **Note 2:** V-Guard underwent brand rejuvenation in Q4 FY18 where significant investments (Rs. 45 crore ATL spends) were made resulting in lower EBITDA & PAT for FY18.



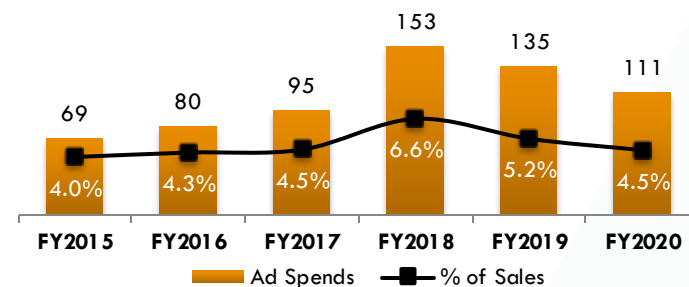
Note 3: V-Guard adopted Ind-AS framework starting FY18. Numbers for FY17 have been reinstated in compliance with Ind-AS to draw meaningful comparison. Prior period numbers are in IGAAP and not comparable.

Operational Highlights (FY15-20)

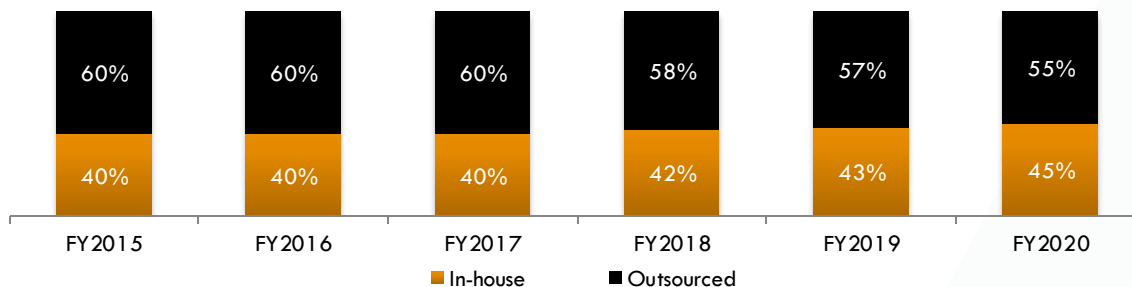
Expanding Geographic Presence



Ad & Promo Spends and as a % of Sales



In-house Manufacturing vs. Outsourcing



Market Size across Product Segments

18



Products		STABILIZERS	PVC WIRES	COOKTOPS	MOTOR PUMPS
Market Size (Rs. Crore)*	Organized	700.00	5,500.00	420.00 – 450.00	5,500.00
	Unorganized	550.00	4,000.00	180.00 – 200.00	5,000.00
	Total	1,250.00	9,500.00	600.00 – 650.00	10,500.00
Key Players		Micro tech, Livguard, Bluebird, Capri, Logicstat, Premier, Everest	Polycab, Havells, Finloex, RR Cables, Anchor	Prestige, Bajaj Electrials, TTK Prestige, Preethi, Butterfly	Crompton Greaves, Kirloskar, CRI, Texmo
Production Model		62% Outsourced	100% In-House	100% Outsourced	90% Outsourced
Distribution Channel Strategy		Consumer Durable stores, Electrical and Hardware Stores	Electrical and Hardware Stores	Consumer Durables / Kitchen Appliances stores	Electrical and hardware Stores, Pump and Pipe fittings Stores

*Company estimates FY16

Market Size across Product Segments



Products		WATER HEATERS	FANS	UPS	Digital UPS
Market Size (Rs. Crore)*	Organized	1,325.00	5,000.00	160.00	4,500.00
	Unorganized	700.00	1,500.00	240.00	750.00
	Total	2,025.00	6,500.00	400.00	5,250.00
Key Players		A.O. Smith, Racold, Bajaj, Venus, Crompton Greaves, Usha	Crompton, Usha, Bajaj Electricals, Havells, Orient	Numeric, APC, Emerson	Microtek, Luminous, Su-Kam, Exide
Production Model		55% Outsourced	90% Outsourced	100% Outsourced	100% Outsourced
Distribution Channel Strategy		Consumer Durable stores, Electrical and Hardware Stores	Consumer Durable stores, Electrical and Hardware Stores	Consumer Durable stores	Consumer Durable stores, Electrical and Hardware stores, Battery Retail stores

Market Size across Product Segments



20



Products		SOLAR WATER HEATER	SWITCHGEAR	GAS STOVES	MIXER GRINDERS
Market Size (Rs. Crore)*	Organized	420.00	1,400.00	1,000.00	1,500.00
	Unorganized	180.00	600	1,000.00	1,000.00
	Total	600.00	2,000.00^	2,000.00	2,500.00
Key Players		Racold, Emmvee Solar, Sudarshan, Supreme	Havells, Legrand, L&T, ABB	Butterfly (glass top), Sun Flame (steel)	Preethi, Bajaj Electricals, Butterfly, Panasonic
Production Model		100% In-House	100% Outsourced	100% Outsourced	100% Outsourced
Distribution Channel Strategy		Direct Marketing Channel	Electrical stores	Consumer Durables / Kitchen Appliances stores	Consumer Durables / Kitchen Appliances stores

*Company estimates FY16; ^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 cables, Electric water heaters, Fans, Solar water heaters and has also recently forayed into Induction cooktops, switchgears, modular switches, air coolers 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 39% of total revenues in FY19. 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 31 branches spread across ~40,000+ retailers across the country.



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THANK YOU