

V-Guard Industries

Q4 & FY2018 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.

V-Guard Industries Limited (V-Guard) will not be in any way responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.



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Managing Director's Message



Commenting on the performance for Q4 & FY18, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,

"We have ended the year on a strong note delivering a topline growth of ~15% in FY18, adjusted for the GST-related price impact, in line with our growth aspirations. This is despite the challenging environment where volume growth was impacted on account of the residual impact of demonetization and the de-stocking by the trade ahead of the GST implementation, both of which will benefit us in the long run. Q4 saw a topline growth of ~13% (GST-adjusted) driven by robust growth of 27% in the non-South markets and 5% in the South markets. The growth was led by kitchen appliances, fans, switchgears and digital UPS segments. Underlying gross margins improved 50-60 bps for the quarter.

The highlight during the quarter was the unveiling of our new brand identity reflecting our evolution into a new-generation, technology-driven smart organisation with a pan-India presence. This will further consolidate our leadership position in the South markets while facilitating increased visibility, brand penetration and expansion of our product portfolio in the non-South markets, which contributed 37% of revenues in FY18 revenues from 35% last year. The increased ATL spending on the brand rejuvenation exercise resulted in temporary impact on EBITDA margins.

As we move into the new financial year, we remain confident of maintaining our 15% growth trajectory over the next few years driven by continued expansion into non-South markets and introduction of new product categories, supported by revival in consumer demand. We are undertaking several business strengthening initiatives and putting in place best-in-class processes and systems to future-proof the organization with efforts on innovation, R&D and product development in order to roll-out differentiated offerings."

Key Highlights – Q4 FY2018



GST adjusted revenue growth of 13% YoY

- Adjusted for GST related price changes, revenue growth for the Q4/FY18 stood at ~13%/15% YoY (6.2%/9.8% reported growth)
- Broad-based growth in Q4 across all product categories led by kitchen appliances, fans, switchgears and digital UPS while stabilizer segment was flat
- Non-South markets recorded robust growth of 20.1% YoY (~27% GST adjusted) in Q4 FY18; South markets grew ~5% (GST adjusted)
- Expect to maintain volume growth of 15% CAGR over the next few years

Gross profit up 15% YoY; margins expand 220 bps

- Underlying improvement, adjusted for GST price deflation, stood at ~50-60 bps

EBITDA margin impact from investments in brand rejuvenation

- Ad & promo spends of Rs. 64 crore during Q4 FY18 as compared to Rs. 16.9 crore in Q4 FY17, up 3.8X
- Brand rejuvenation exercise launched nation-wide in Q4 FY18 with some spillover expected in Q1 FY19
- ATL spends to the tune of 6.9% in Q4 FY18 vs 1.5% in Q4 FY17
- Ad spends to be in line with historical trends from Q2 FY19

Working capital cycle at 66 days in Q4 FY18

- Working capital cycle at 66 days in Q4 FY18 vs 67 days in Q4 FY17
- Cash flow from operations of Rs. 45 crore in FY18
- Rs 42 crore of GST-related increase in working capital – including Rs. 26 crore due to input tax credit, which is expected to normalize during the year
- Net cash of Rs. 78 crore on balance sheet as on 31st March 2018

Strong return ratios

- Strong return ratios maintained with ROE and ROCE of 18% and 22% respectively (TTM basis) in FY18, despite significant investments in brand building

Business Updates – Q4 FY18



Unveiled its new brand identity which marks the evolution of the company into a new-generation, technology-driven smart organisation with a pan-India presence

Opened new corporate regional office in Kolkata to complement our ongoing endeavor to strengthen business in non-South markets, especially the East

Launched new variant of 'smart' ceiling fans, Imagina, with app-controlled features, cleverly programmed LED lights, and well-designed aesthetics

Launched modular switches in Kerala and also introduced an exclusive range of air coolers in Delhi and Hyderabad

Ind-AS Impact on V-Guard



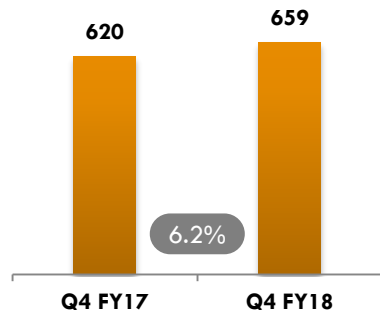
Key Ind-AS Adjustments

- 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

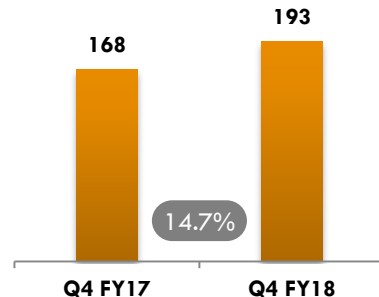
Financial Highlights (Q4 FY18 vs Q4 FY17)



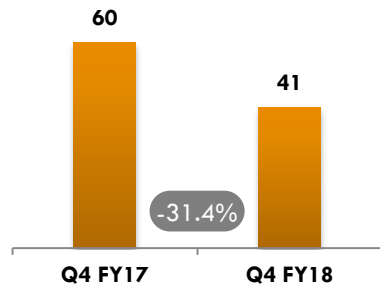
Total Income (Rs. crore)



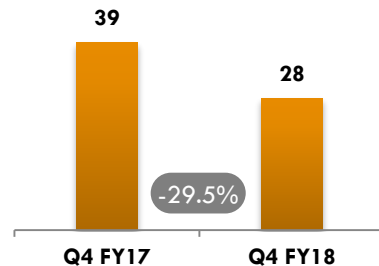
Gross Profit



EBITDA (Rs. crore)



PAT (Rs. crore)

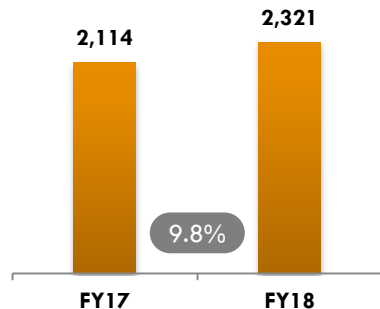


Key ratios (%)	Q4 FY18	Q4 FY17
Gross Margin	29.3%	27.1%
EBITDA Margin	6.3%	9.7%
Net Margin	4.2%	6.3%
Ad Expenditure (incl. promotions)/Total Revenues	9.7%	2.7%
Employee Cost/ Total Operating Income	6.4%	6.8%
Other Expenditure/ Total Operating Income	17.1%	11.1%
Tax rate	22.9%	29.3%
Diluted EPS (Rs.)	0.64	0.91

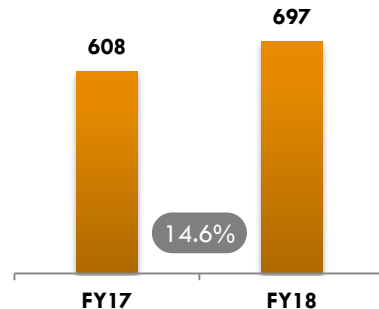
Financial Highlights (FY18 vs FY17)



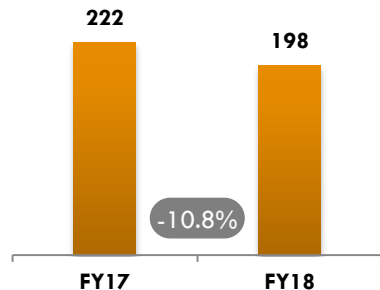
Total Income (Rs. crore)



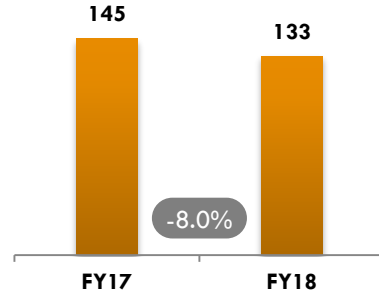
Gross Profit



EBITDA (Rs. crore)



PAT (Rs. crore)



Key ratios (%)	FY18	FY17
Gross Margin	30.0%	28.7%
EBITDA Margin	8.5%	10.5%
Net Margin	5.7%	6.8%
Ad Expenditure (incl. promotions)/Total Revenues	6.6%	4.5%
Employee Cost/ Total Operating Income	7.3%	6.8%
Other Expenditure/ Total Operating Income	14.6%	12.1%
Tax rate	24.9%	29.0%
Diluted EPS (Rs.)	3.08	3.37

Financial Highlights – Balance Sheet Perspective



Balance Sheet Snapshot (Rs. cr)	31 Mar 2018	31 Dec 2017	31 Mar 2017
Net worth	751.6	716.3	634.4
Gross debt	2.4	3.3	5.7
Current Investments	75.2	104.1	88.9
Cash and cash equivalents	4.7	4.1	14.7
Net Cash Position (Rs. crore)	77.5	104.9	97.9
Fixed Assets	208.1	204.4	178.8

Balance Sheet Snapshot (Rs. cr)	31 Mar 2018	31 Dec 2017	31 Mar 2017
Debtor (days)	70	51	54
Inventory (days)	70	68	66
Creditor (days)	74	57	53
Working Capital Turnover (days)	66	62	67
RoE* (%)	17.7%	20.2%	22.8%
RoCE* (%)	22.2%	26.0%	29.9%

*Calculations are based on a trailing twelve month basis

Segment-wise Breakup of Revenues – Q4 FY18 vs Q4 FY17



Products	Q4 FY18 (Rs. Cr)	Contribution (%)	Q4 FY17 (Rs. Cr)	Contribution (%)	YoY growth (%)
Electronics	207.7	31.5%	192.8	31.1%	7.7%
Electricals	294.6	44.7%	295.8	47.7%	-0.4%
Consumer Durables	156.3	23.7%	131.7	21.2%	18.7%
Grand Total	658.6	100.0%	620.3	100.0%	6.2%

Products	Q4 FY18 (Rs. Cr)	Contribution (%)	Q4 FY17 (Rs. Cr)	Contribution (%)	YoY growth (%)
Stabilizers	120.5	18.3%	122.1	19.7%	-1.3%
UPS (Digital + Standalone)	87.2	13.2%	70.7	11.4%	23.4%
Pumps	87.2	13.2%	88.7	14.3%	-1.7%
Cables & Wires (PVC + LT)	189.8	28.8%	194.4	31.3%	-2.4%
Water Heaters (Electric + Solar)	43.7	6.6%	42.9	6.9%	1.8%
Fans	94.8	14.4%	80.5	13.0%	17.9%
Kitchen Appliances (Cooktops + Mixers)	14.1	2.1%	8.3	1.3%	69.8%
Switchgears	15.9	2.4%	12.7	2.0%	25.5%
Modular Switches	1.6	0.2%			
Air coolers	3.7	0.6%			
GRAND TOTAL	658.6	100.0%	620.3	100%	6.2%

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

Note 1: V-Guard adopted Ind-AS framework starting Q1 FY18. Comparable prior period numbers have been restated in compliance with Ind-AS.

Note 2: Consequent to the introduction of GST w.e.f. July 01, 2017, Central Excise, Value Added Tax (VAT), etc. have been subsumed into GST. Unlike Excise Duties, levies like GST, VAT, etc. are not part of Revenue. Hence, the growth calculations appearing in this section, are not strictly comparable with prior periods.

Segment-wise Breakup of Revenues – FY18 vs FY17



Products	FY18 (Rs. Cr)	Contribution (%)	FY17 (Rs. Cr)	Contribution (%)	YoY growth (%)
Electronics	729.2	31.4%	664.8	31.4%	9.7%
Electricals	1,017.1	43.8%	940.9	44.5%	8.1%
Consumer Durables	575.0	24.8%	508.5	24.0%	13.1%
Grand Total	2,321.3	100.0%	2,114.2	100.0%	9.8%

Products	FY18 (Rs. Cr)	Contribution (%)	FY17 (Rs. Cr)	Contribution (%)	YoY growth (%)
Stabilizers	443.2	19.1%	428.1	20.2%	3.5%
UPS (Digital + Standalone)	286.0	12.3%	236.7	11.2%	20.8%
Pumps	275.4	11.9%	261.8	12.4%	5.2%
Cables & Wires (PVC + LT)	688.6	29.7%	638.8	30.2%	7.8%
Water Heaters (Electric + Solar)	284.5	12.3%	265.0	12.5%	7.4%
Fans	228.4	9.8%	200.7	9.5%	13.8%
Kitchen Appliances (Cooktops + Mixers)	58.4	2.5%	42.8	2.0%	36.6%
Switchgears	51.5	2.2%	40.3	1.9%	27.6%
Modular Switches	1.6	0.1%	0.0	0.0%	0.0%
Air coolers	3.7	0.2%	0.0	0.0%	0.0%
GRAND TOTAL	2,321.3	100.0%	2,114.2	100.0%	9.8%

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

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Geographical Breakup of Revenues



Region	Q4 FY18 (Rs. Cr)	Contribution (%)	Q4 FY17 (Rs. Cr)	Contribution (%)	YoY growth (%)
South	399.1	61%	404.2	65%	-1.3%
Non-South	259.5	39%	216.1	35%	20.1%
Total Revenue	658.6	100%	620.3	100%	6.2%

Region	FY18 (Rs. Cr)	Contribution (%)	FY17 (Rs. Cr)	Contribution (%)	YoY growth (%)
South	1,462.8	63%	1,385.5	66%	5.6%
Non-South	858.5	37%	728.7	34%	17.8%
Total Revenue	2,321.3	100%	2,114.2	100%	9.8%

Business Outlook



- The Company is confident of achieving a volume growth of 15% over the next few years driven by expansion into non-South markets and introduction of new product categories. Revival in consumer demand post the short term disruption caused by GST and demonetisation, moderate inflation levels and revival in rural demand with expectations of a third consecutive year of normal monsoons in 2018 are expected to augur well for the Company.
- We continue to undertake business strengthening initiatives and putting in place best in class processes and systems to future-proof the organization. We will be focused on successfully executing the objectives of Udaan Phase-II as well as seeing through the successful pan-India implementation of salesforce.com.
- 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. We have products that are connected, controlled and M2M capable and are bringing capabilities like machine learning as well. We are also building in auto diagnostics into devices. We are also working on a digital strategy for the company that includes looking at the predictive maintenance in plants, using Artificial Intelligence. We are focusing on Six Sigma, TPM, lean manufacturing, etc at our 10 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 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. Further, the Board has approved raising of funds up to an aggregate of Rs. 500 crore through debt or equity or a combination of both.



Annexure

Company Overview



Comprehensive portfolio catering to the mass consumption market

- **Electronics** – Stabilizers, UPS, Solar Inverter; **Electricals** – Cables & 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 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 ~58% 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

Production Model



PVC Cable 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	Perundhurai
Stabilizers	2	Sikkim
Outsourced production facilities		
Stabilizers	63	Across India
Pump	20	"
Fan	6	"
UPS	12	"
Elec. Water Heater	7	"

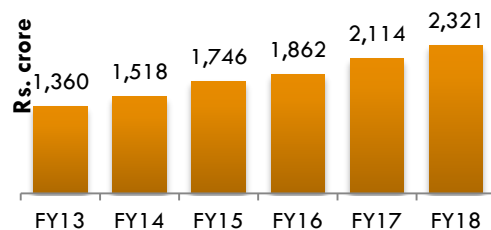
Outsourcing Objectives

- Asset light model outsourcing ~58% 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

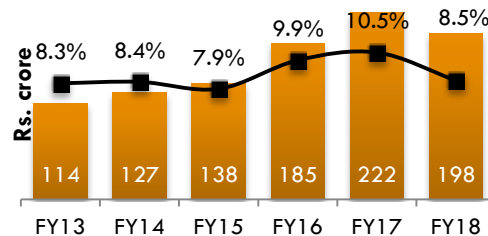
Financial Highlights (FY13-18)



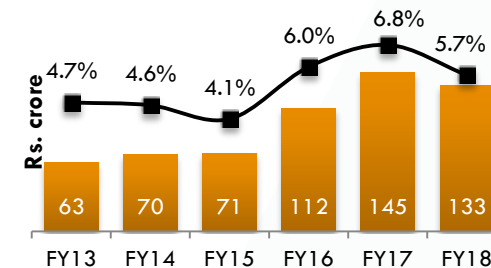
Revenue



EBITDA and EBITDA Margins

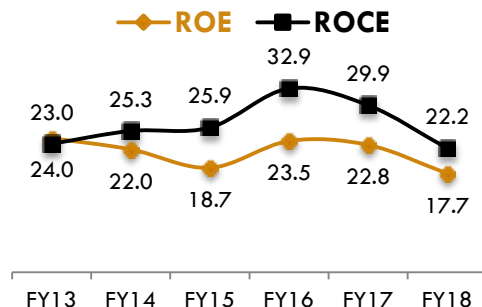


PAT and PAT Margins

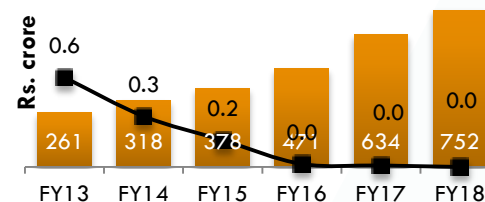


Note 1: Please note that consequent to the introduction of Goods and Service Tax (GST) with effect from July 01, 2017, Central Excise, Value Added Tax (VAT), etc. have been subsumed into GST. In accordance with Indian Accounting Standard - 18 on Revenue and Schedule III of the Companies Act, 2013, unlike Excise Duties, levies like GST, VAT, etc. are not part of Revenue. Hence, the revenue and growth calculations for FY18, are not strictly comparable with FY17 and 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 and PAT for FY18.



Net Worth and Gross D/E



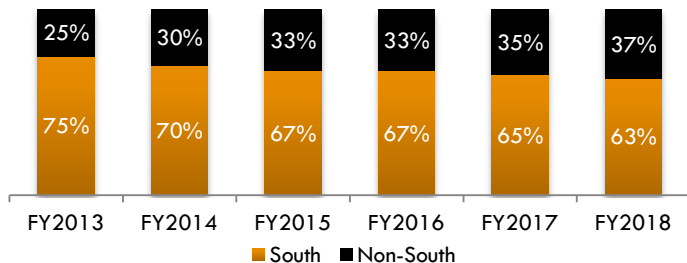
Note 3: V-Guard adopted Ind-AS framework starting FY18. Numbers for FY17 have been reinstated in compliance with Ind-AS to draw meaningful comparison. Prior period numbers are in IGAAP and not comparable.

Operational Highlights (FY13-18)

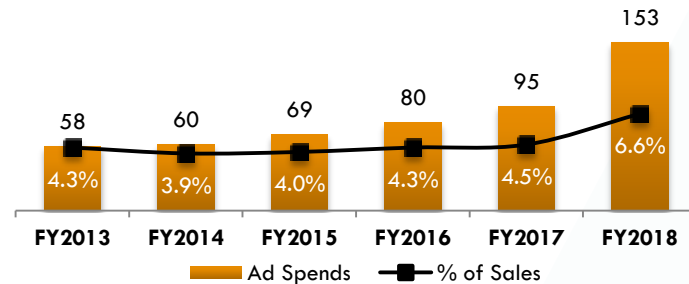


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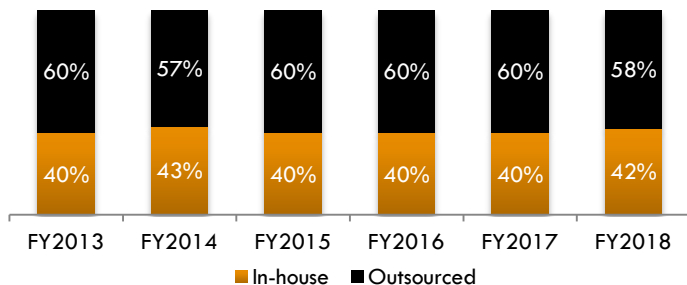
Expanding Geographic Presence



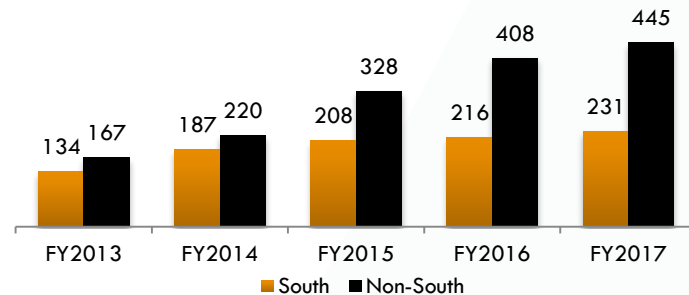
Ad & Promo Spends and as a % of Sales



In-house Manufacturing vs. Outsourcing



Strong Growth in Distributor Network



Market Size across Product Segments



20



Products		STABILIZERS	PVC CABLES	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	10,000.00
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		90% Outsourced	100% In-House	100% In-House	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



21



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	Outsourced	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

22



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/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