

V-Guard Industries

Q2 & H1 FY2014 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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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 launches include Solar Water Heaters, Induction cooktops, Switchgears
- 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 301 distributors, 3,548 channel partners and 15,000 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
- Doubling house-wiring factory and setting up second manufacturing unit for 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 37% and 34% between FY08-FY13
- Significant expansion in return ratios over the last five years; ROE at 24% and ROCE at 23% for FY2013

Managing Director's Message



Commenting on the performance for Q2 FY2014, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,

"We have reported a subdued performance this quarter. Seasonality is a part of our business and sales of certain products were affected due to the extended monsoon season. To add to this, our performance has to be measured against a high base last year in Q2, when an extended summer season boosted sales of our products. Further, an improvement in the power scenario this quarter, especially in South India, affected sales of inverters, a high growth driver last year.

We believe demand growth is stable with weather related quarterly swings. However, we marginally revise our outlook in terms of topline growth to 20% for FY14 and expect EBITDA margins to be in the range of 9-9.5% for the full year.

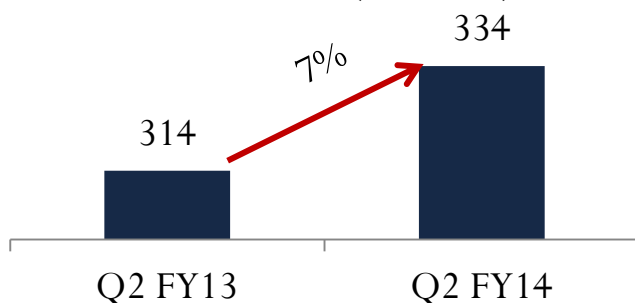
Non-south geographies continue to grow at a strong pace, up 34% YoY and accounted for 28% of the total sales in Q2. After the high ad spend last quarter on the IPL season (5.3% of sales), as per our stated plan we have cut down the ad expenditure this quarter to 3.3% of sales as compared to a mere 2.1% in Q2 FY13. For the full year, however, ad spends will be maintained between 3.5-4% of our revenues with the objective of penetrating the non-South markets, establishing V-Guard as a pan-India brand and increasing our pricing power."

Key Highlights - Q2 & H1 FY14

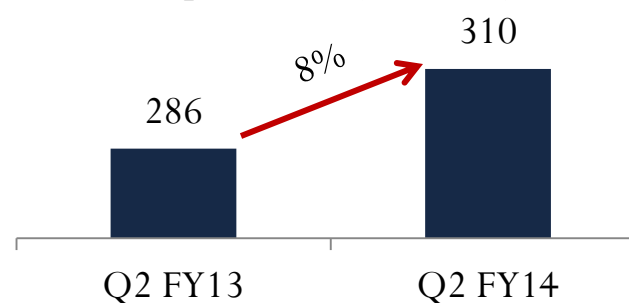
- **Revenue growth of 7% YoY in Q2 FY14**
 - Improved power situation in South India and the extended monsoon season impacted sales of Digital UPS and Pumps
 - Further, performance has to be measured against a high base in Q2 FY13, when an extended summer season boosted sales of our products
- **EBITDA margins at 8.4% in Q2 FY14**
 - 150 bps YoY impact on account of 120 bps increase in ad expenditure, 120 bps increase in staff costs and 170 bps increase in other expenditure
 - COGS/Sales improved by 270 bps
- **Working capital cycle at 69 days in H1 FY14**
 - Improved by 4 days YoY led by 13 days reduction in debtors and expansion of 2 days in creditors
 - Inventory days were higher on account of weak demand environment
- **Strong cash generation in H1 FY14**
 - Cash from operations at Rs. 87 crore in H1 FY14 as compared to Rs. 21 crore in H1 FY13

Financial Highlights (Q2 FY2014)

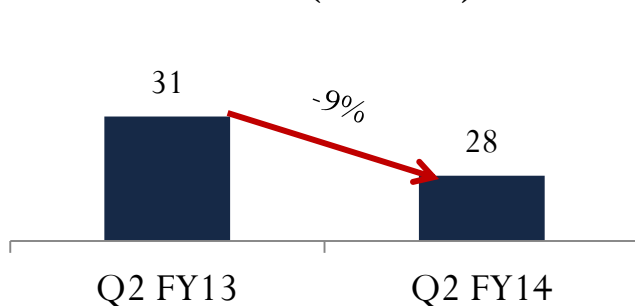
Total Income (Rs. crore)



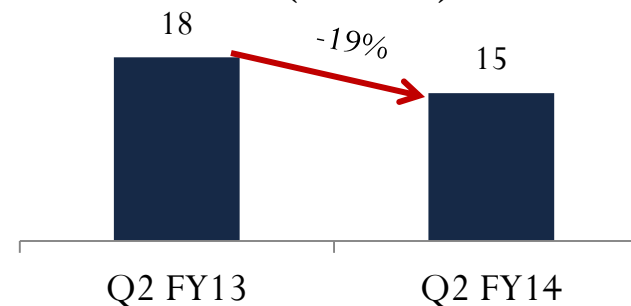
Expenditure (Rs. crore)



EBITDA (Rs. crore)



PAT (Rs. crore)



Key ratios (%)

EBITDA Margin

Q2 FY14

8.4%

Q2 FY13

9.9%

Net Margin

4.3%

5.7%

COGS/ Total Operating Income

72.4%

75.1%

Ad Expenditure (incl. promotions)/Total Revenues

3.3%

2.1%

Staff Cost/ Total Operating Income

6.6%

5.4%

Other Expenditure/ Total Operating Income

7.4%

5.7%

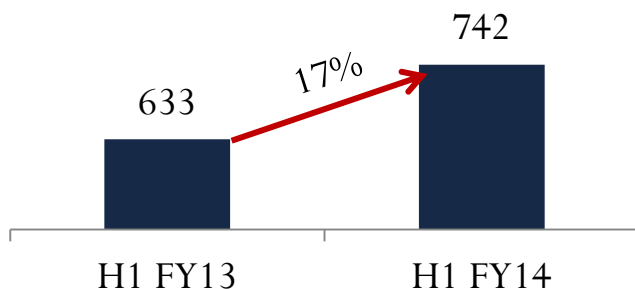
EPS (Rs.)

4.9

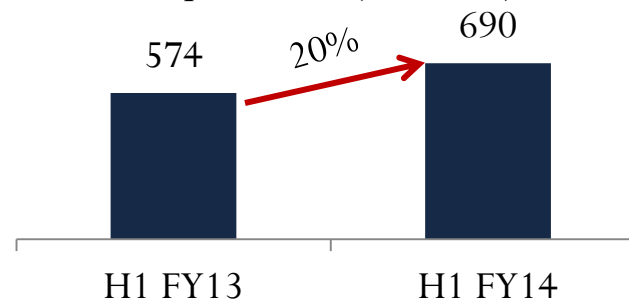
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Financial Highlights (H1 FY2014)

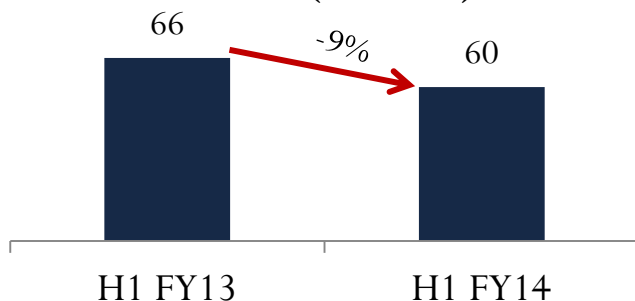
Total Income (Rs. crore)



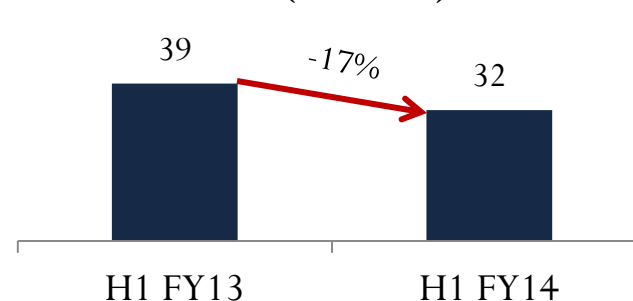
Expenditure (Rs. crore)



EBITDA (Rs. crore)



PAT (Rs. crore)



Key ratios (%)

EBITDA Margin

H1 FY14

8.1%

H1FY13

10.4%

Net Margin

4.3%

6.1%

COGS/ Total Operating Income

73.4%

74.1%

Ad Expenditure (incl. promotions)/Total Revenues

4.4%

2.9%

Staff Cost/ Total Operating Income

5.9%

5.2%

Other Expenditure/ Total Operating Income

6.3%

5.7%

EPS (Rs.)

10.8

12.9

Financial Highlights – B/S Perspective

Balance Sheet Snapshot (Rs. crore)	30 September 2013	30 June 2013	30 September 2012
Net worth	294.5	279.2	249.3
Total debt	107.7	114.9	121.9
○ <i>Working capital</i>	71.4	76.9	100.1
○ <i>Term loan</i>	36.3	38.0	21.8
Acceptances	80.3	62.0	31.2
Fixed Assets	164.0	161.1	136.9

Key Ratios	H1 FY14	H1 FY13
Inventory (days)	81	70
Debtor (days)	40	53
Creditor (days)	52	50
Working Capital Turnover (days)	69	73
RoE (%)	19%	28%
RoCE (%)	22%	29%
Debt/Equity (x)	0.4	0.5

Please note ROE, ROCE calculations are based on a TTM basis

Segment-wise Breakup of Revenues - Q2 FY14 vs Q2 FY13

Segment	Products	Q2 FY2014 (Rs. cr.)	Contribution (%)	Q2 FY2013 (Rs. cr.)	Contribution (%)	YoY growth (%)
Electronics	Stabilizers	54.3	16.2%	50.3	16.1%	7.8%
	Standalone UPS	11.0	3.3%	15.1	4.8%	-27.2%
	Digital UPS	19.4	5.8%	37.4	11.9%	-48.2%
	Segment Total	84.6	25.3%	102.8	32.8%	-17.7%
Electricals	Pumps	33.8	10.1%	43.1	13.8%	-21.6%
	House wiring cable	117.2	35.1%	89.0	28.4%	31.7%
	LT cable	19.8	5.9%	20.0	6.4%	-1.0%
	Electric water heater	42.2	12.6%	29.2	9.3%	44.6%
	Fan	15.4	4.6%	15.0	4.8%	2.5%
	Other Products	12.6	3.8%	7.5	2.4%	67.8%
	Segment Total	241.0	72.1%	203.8	65.0%	18.3%
Others	Solar water heater	8.4	2.5%	6.9	2.2%	22.5%
	Segment Total	8.4	2.5%	6.9	2.2%	22.5%
	GRAND TOTAL	334.1	100.0%	313.5	100.0%	6.6%

Segment-wise Breakup of Revenues - H1 FY14 vs. H1 FY13

Segment	Products	H1 FY2014 (Rs. cr.)	Contribution (%)	H1 FY2013 (Rs. cr.)	Contribution (%)	YoY growth (%)
Electronics	Stabilizers	144.5	19.5%	127.8	20.2%	13.1%
	Standalone UPS	22.5	3.0%	26.0	4.1%	-13.6%
	Digital UPS	82.7	11.1%	75.0	11.9%	10.3%
	Segment Total	249.7	33.6%	228.8	36.2%	9.1%
Electricals	Pumps	89.4	12.0%	89.2	14.1%	0.3%
	House wiring cable	223.4	30.1%	169.0	26.7%	32.1%
	LT cable	35.4	4.8%	38.7	6.1%	-8.6%
	Electric water heater	62.1	8.4%	47.9	7.6%	29.6%
	Fan	47.2	6.4%	37.7	6.0%	25.3%
	Other Products	18.7	2.5%	9.7	1.5%	92.0%
	Segment Total	476.2	64.2%	392.3	62.0%	21.4%
Others	Solar water heater	16.3	2.2%	11.4	1.8%	43.0%
	Segment Total	16.3	2.2%	11.4	1.8%	43.0%
	GRAND TOTAL	742.2	100.0%	632.5	100.0%	17.4%

Geographical Breakup of Gross Revenues

Region	Q2 FY2014 (Rs. cr.)	Contribution (%)	Q2 FY2013 (Rs. cr.)	Contribution (%)	YoY growth (%)
South	243.1	72%	247.2	77%	-2%
Non-South	96.4	28%	71.8	23%	34%
Gross Revenues	339.6	100%	319.0	100%	6%

Region	H1 FY2014 (Rs. cr.)	Contribution (%)	H1 FY2013 (Rs. cr.)	Contribution (%)	YoY growth (%)
South	530.2	70%	481.5	75%	10%
Non-South	223.6	30%	162.2	25%	38%
Gross Revenues	753.9	100%	643.7	100%	17%

Outlook

Strong demand outlook

- Household consumption expected to grow at a significant pace over the next five years
- Continuing power deficit in South India to augment sales of Stabilizers, UPS and Inverters
- Boom in residential real estate markets in South India

Leveraging investments in non-South markets

- Investments towards establishing strong dealer network in non-South markets over the last 3 years
- Average revenue per distributor in non-South markets is Rs. 2.5 crore as compared to Rs. 7.5 crore in South markets, providing significant scope for expansion of business on existing investments

Increasing brand visibility

- 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 FY2014

Working capital efficiencies

- Vendor financing and bill discounting initiatives to help lower cash conversion cycle
- Increase the proportion of channel financing going forward
- Increased pricing power in non-South markets, will help to improve debtor days

Robust financial performance to continue

- Topline growth outlook revised to 20% for FY2014
- EBITDA margins to remain in the 9-9.5% band in FY2014
- Robust incremental growth, steady margins, focused working capital management and stable asset base will lead to strong cash generation

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 and Switchgears.

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 25% of total revenues in FY13. 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, over 230 distributors, 3,000 channel partners and 15,000 retailers across the country.

For further information, please contact:

Jacob Kuruvilla (VP & Chief Financial Officer)

V-Guard Industries Limited

Tel: +91 484 300 5602

Email: jacob@vguard.in

Shiv Muttoo/Varun Divadkar

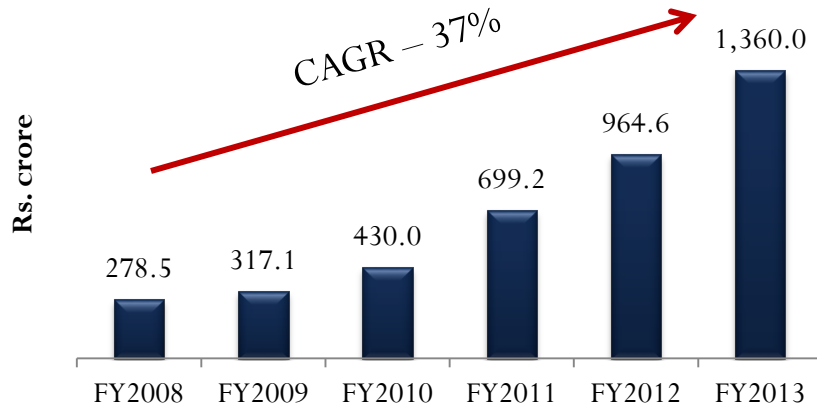
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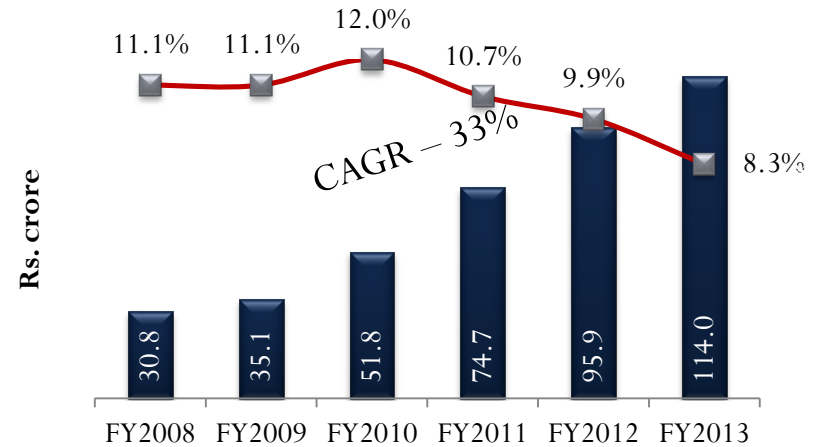
Email: shiv@cdr-india.com / varun@cdr-india.com

Strong Financial Performance FY08-13

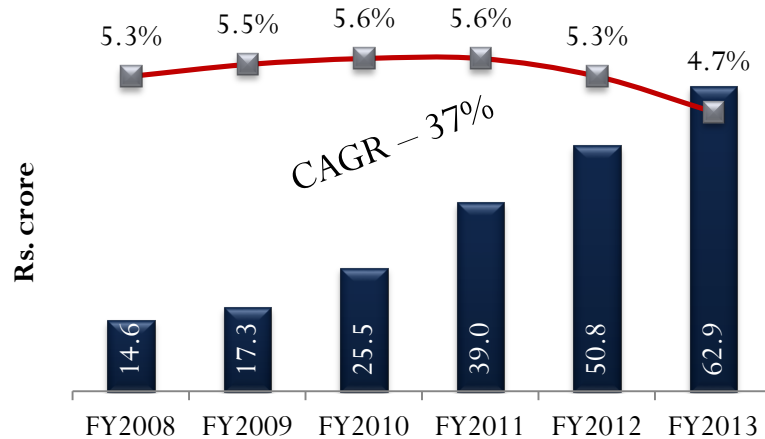
Revenue



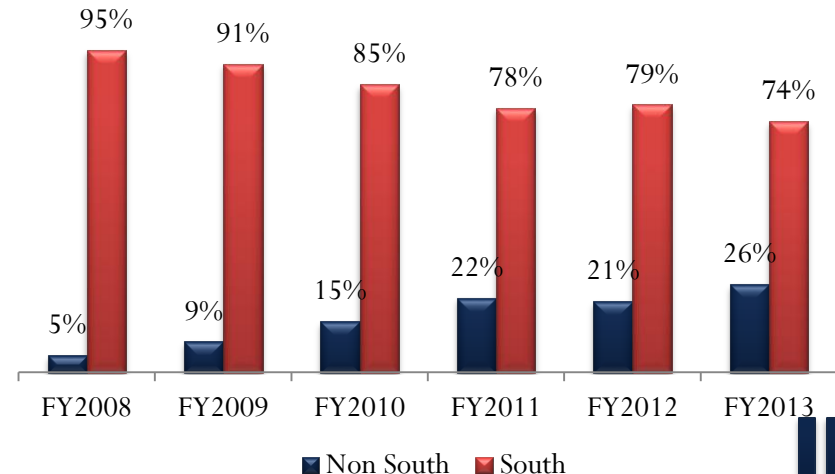
EBITDA and EBITDA Margins



PAT and PAT Margins

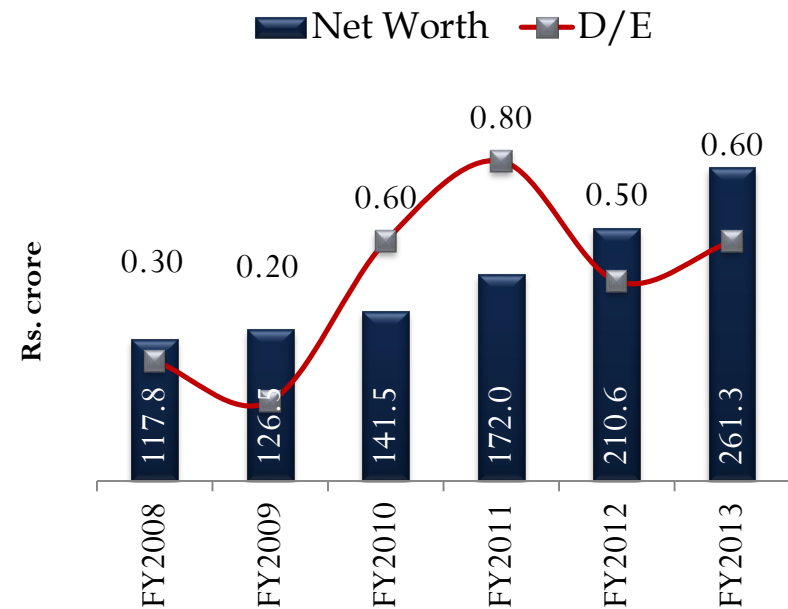
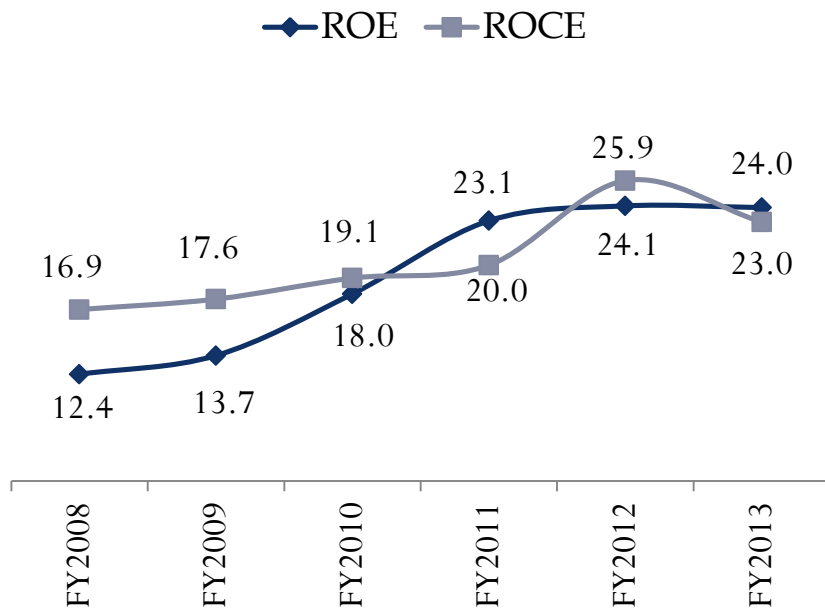


Expanding Geographic Presence



Note – Profit and related figures are excluding exceptional items

Strong Financial Performance FY08-13



Broad-based Growth across Segments FY08-13

Segment	Products	FY08	Contribution (%)	FY13	Contribution (%)	CAGR(%)
Electronics	Stabilizers	93.7	35.3%	237.8	17.5%	20.5%
	Standalone UPS	16.9	6.4%	48.3	3.6%	23.4%
	Digital UPS	0.0	0.0%	173.3	12.7%	NA
	<i>Segment Total</i>	110.6	41.6%	459.4	33.8%	32.9%
Electricals	Pumps	56.1	21.1%	205.3	15.1%	29.6%
	House wiring cable	60.0	22.6%	373.5	27.5%	44.1%
	LT cable	1.0	0.4%	72.8	5.4%	135.8%
	Electric water heater	27.2	10.3%	110.3	8.1%	32.3%
	Fan	8.6	3.2%	79.7	5.9%	56.0%
	Other Products	0.0	0.0%	26.8	2.0%	#DIV/0!
	<i>Segment Total</i>	153.0	57.6%	868.4	63.8%	41.5%
Others	Solar water heater	2.0	0.8%	32.5	2.4%	74.5%
	Others	-	-	-	-	-
	<i>Segment Total</i>	2.0	0.8%	32.5	2.4%	74.5%
	GRAND TOTAL	265.6	100.0%	1360.2	100.0%	38.6%

Market Size across Product Segments

Product	Market Size (Rs. Crore)*			V-Guard Organized Market Share	Key Players	Production Model	Distribution Channel Strategy
	Organised	Unorganised	Total				
 STABILIZERS	400.00	800.00	1200.00	59%	Bluebird, Capri, Logicstat, Premier, Everest	100% Outsourced	Consumer Durable stores, Electrical and Hardware Stores
 PVC CABLES	4000.00	3000.00	7000.00	9%	Havells, Finloex	100% In-House	Electrical and Hardware Stores
 LT POWER CABLES	4300.00	3000.00	7300.00	2%	Havells, Finloex	100% In-House	Electrical and hardware Stores, Direct Marketing Channel

*Company estimates

Market Size across Product Segments

Product	Market Size (Rs. Crore)*			V-Guard Organized Market Share	Key Players	Production Model	Distribution Channel Strategy
	Organised	Unorganised	Total				
 MOTOR PUMPS	900.00	1100.00	2000.00	23%	Crompton Greaves, Kirloskar, CRI, Texmo	90% Outsourced	Electrical and hardware Stores, Pump and Pipe fittings Stores
 WATER HEATERS	650.00	550.00	1200.00	17%	A.O. Smith, Racold, Bajaj, Venus, Crompton Greaves	90% Outsourced	Consumer Durable stores , Electrical and Hardware Stores
 FANS	3500.00	1500.00	5000.00	2%	Crompton, Bajaj Electricals, Havells, Orient	90 % Outsourced	Consumer Durable stores , Electrical and Hardware Stores

*Company estimates

Market Size across Product Segments

Product	Market Size (Rs. Crore)*			V-Guard Organized Market Share	Key Players	Production Model	Distribution Channel Strategy
	Organised	Unorganised	Total				
 UPS	160.00	240.00	400.00	30%	Numeric, APC, Emerson	Outsourced	Consumer Durable stores
 Digital UPS	6500.00	1000.00	7500.00	3%	Microtek, Luminous, Su-Kam	Outsourced	Consumer Durable stores, Electrical and Hardware stores, Battery Retail stores
 SOLAR WATER HEATER	425.00	225.00	650.00	8%	Tata BP Solar	100% In-House	Direct Marketing Channel

*Company estimates

New Product Launches



Induction Cooker



Switchgears & DBs

-
- Successful launch of new products in the Kerala market
 - Induction cooktops launched in the Karnataka market last quarter
 - Revenues of Rs. 15 crore from induction cooktops and Rs. 12 crore from switchgears in FY13
 - Delivering gross margins of 35-40% in both these products
 - Products to be extended into other Southern markets in a phased manner
 - Mixer grinders to be launched during Q2 FY14 in Kerala to capture demand during Onam

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	Perunthurai
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

THANK YOU

