



V-Guard Industries

Q1 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 Q1 FY18, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,



“Performance during Q1 has been impacted by the transition from the VAT regime to the GST regime. We have seen substantial de-stocking by the trade channel which compressed sales volumes. There was also some sales impact from a more moderate summer season. On the cost side, we incurred GST implementation-related professional expenses and supported the trade by compensating for transition losses. We also closed Q1 with higher inventories that should normalize going forward. Overall, we estimate that excluding the specific impact of GST transition, we may have been close to our historical trend of growth and margins.

During Q1, we also had a Rs. 3 crore impact from changing the method of ESOP accounting based on Ind-AS adoption and another Rs. 3 crore additional cost from the recently launched stabiliser and water heater units in Sikkim, of which Rs. 1 crore would be one-off expenses linked to the launch. The rest is higher operating cost, which will replace outsourced purchases.

Given the fluid business environment, there have been delays in price recovery during the quarter that impacted gross margin. However, at present, we are encouraged by a positive recovery coming into Q2, which we expect should be spread over the next few months. We continue to monitor the situation and should be in a better position to estimate our full year business outlook by the next quarter.”

Key Highlights – Q1 FY2018

Revenue growth impacted on account of de-stocking

- Revenue grew 1.5% to Rs. 569 crore in Q1 FY17
- GST-related temporary de-stocking by trade led to drop in volumes leading to revenue loss
- Non-South markets grew 7.7% YoY and contributed 40% of the total revenue this quarter
- GST disruption expected to be temporary – July sales have been encouraging

Gross profit at Rs. 153.7 crore and EBITDA at Rs. 35.8 crore

- Gross margins down 130 bps YoY
- Increase in raw material costs and delayed price increases on account of the fluid environment, weighed down on margins
- EBITDA margins were further impacted by GST related one-off expenses including consultant costs, supporting trade by making good transition losses and wire sales had to be discounted to liquidate inventories
- Q1 FY18 also included start-up costs of Sikkim factory
- Barring the above-mentioned costs and the volume loss due to the GST-related destocking, EBITDA margins would have been in line with past trends

Working capital cycle at 59 days in Q1 FY18

- Working capital cycle at 59 days in Q1 FY18 vs 47 days in Q1 FY17
- Impacted by increase in inventory during the quarter as a consequence of the channel de-stocking
- Expected to stabilize going forward as the re-stocking process starts

Strong return ratios

- ROE and ROCE of 14.0% and 16.8% respectively (Quarterly Annualised) despite being a weak quarter

Robust cash generation

- Cash flow from operations of Rs. 57.5 crore in Q1 FY18
- Net cash of Rs. 145 crore on balance sheet as on 30th June 2017

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

Ind-AS Impact on V-Guard

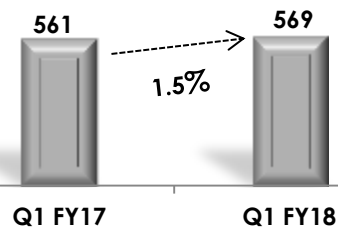
Key Ind-AS Adjustments

- 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

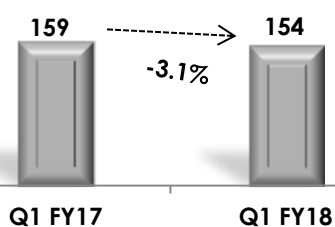
Financial Highlights (Q1 FY18 vs Q1 FY17)

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

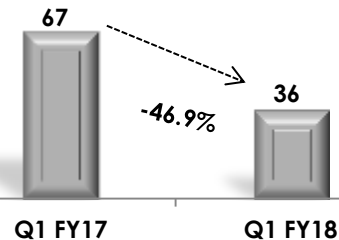
Total Income (Rs. crore)



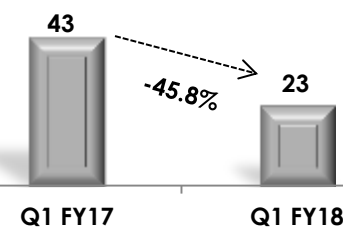
Gross Profit



EBITDA (Rs. crore)



PAT (Rs. crore)



Key ratios (%)

	Q1 FY18	Q1 FY17
Gross Margin	27.0%	28.3%
EBITDA Margin	6.3%	12.0%
Net Margin	4.1%	7.7%
Ad Expenditure (incl. promotions)/Total Revenues	4.7%	5.1%
Employee Cost/ Total Operating Income	7.5%	5.4%
Other Expenditure/ Total Operating Income	13.7%	11.2%
Tax rate	24.6%	31.6%
Diluted EPS (Rs.)	0.54	1.01

Financial Highlights – Balance Sheet Perspective

Balance Sheet Snapshot (Rs. crore)	30 June 2017	30 June 2016
Net worth	662.1	520.9
Gross debt	4.9	18.7
Current Investments	143.4	105.8
Cash and cash equivalents	6.5	15.7
Net Cash Position (Rs. crore)	145.2	102.9
Fixed Assets	192.4	159.7

Key Ratios	30 June 2017	30 June 2016
Debtor (days)	37	44
Inventory (days)	67	47
Creditor (days)	45	43
Working Capital Turnover (days)	59	47
RoE* (%)	14.0%	33.4%
RoCE* (%)	16.8%	44.8%

*Calculations are based on a **quarterly annualised 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 – Q1 FY18 vs Q1 FY17

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

Category	Q1 FY2018 (Rs. cr.)	Contribution (%)	Q1 FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Electronics	226.8	39.8%	219.0	39.0%	3.6%
Electricals	236.6	41.6%	228.0	40.6%	3.8%
Consumer Durables	105.7	18.6%	114.0	20.3%	-7.2%
Grand Total	569.1	100.0%	560.9	100.0%	1.5%

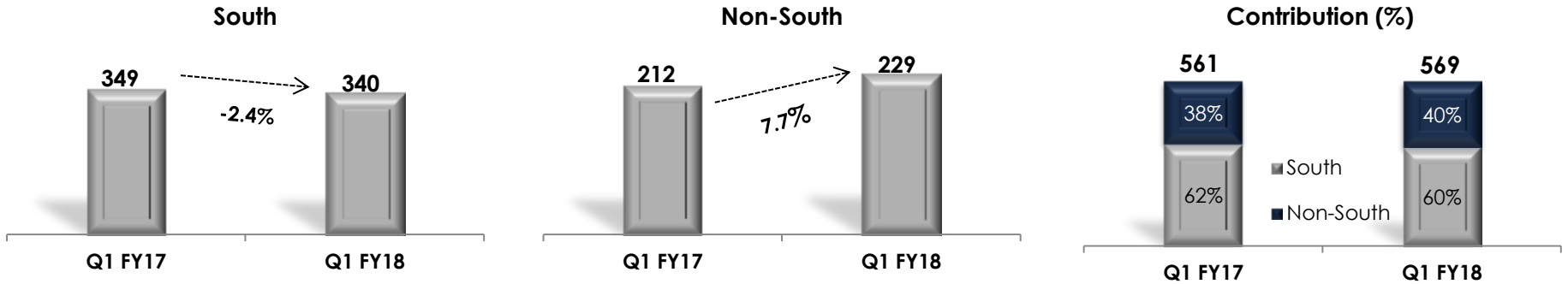
Products	Q1 FY2018 (Rs. cr.)	Contribution (%)	Q1 FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	141.3	24.8%	143.4	25.6%	-1.5%
UPS (Digital + Standalone)	84.2	14.8%	72.7	13.0%	15.8%
Pumps	69.0	12.1%	65.9	11.7%	4.7%
Cables & Wires (PVC + LT)	157.8	27.7%	152.7	27.2%	3.4%
Water Heaters (Electric + Solar)	44.6	7.8%	49.9	8.9%	-10.6%
Fans	55.1	9.7%	58.6	10.4%	-5.9%
Kitchen Appliances (Cooktops + Mixers)	7.3	1.3%	8.4	1.5%	-13.4%
Switchgears	9.7	1.7%	9.4	1.7%	3.7%
GRAND TOTAL	569.1	100.0%	560.9	100%	1.5%

Electronics – Stabilizers, UPS, Solar Inverter

Electricals – Cables& Wires, Pumps, Switchgears

Consumer Durables – Fans, Water Heaters, Kitchen Appliances

Geographical Breakup of Revenues



Note: V-Guard adopted Ind-AS framework starting Q1 FY17. Comparable prior period numbers have been restated in compliance with Ind-AS for a meaningful comparison.

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. The Company is also looking to launch modular switches in South India in the current year, which is a natural extension of the wire accessories and switchgear segment. 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	"

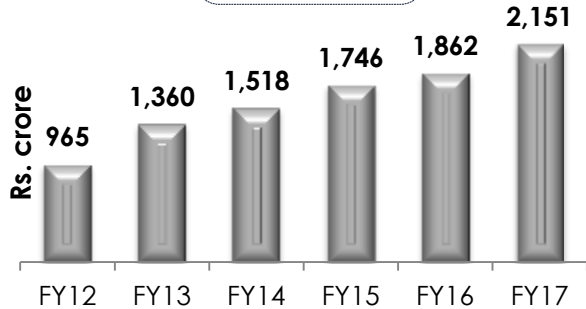
Outsourcing Objectives

- 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)

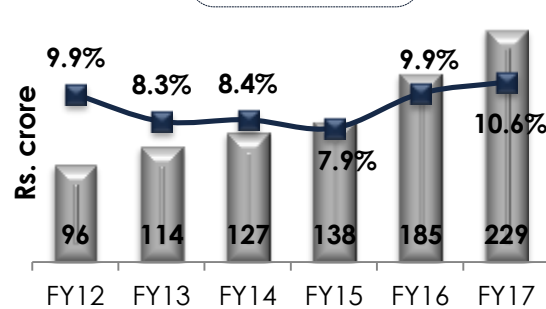
Revenue

CAGR – 17%



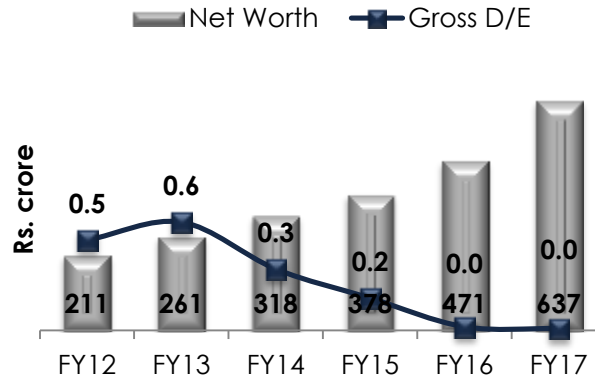
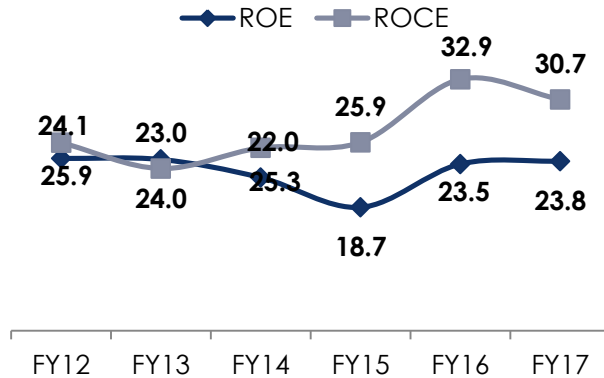
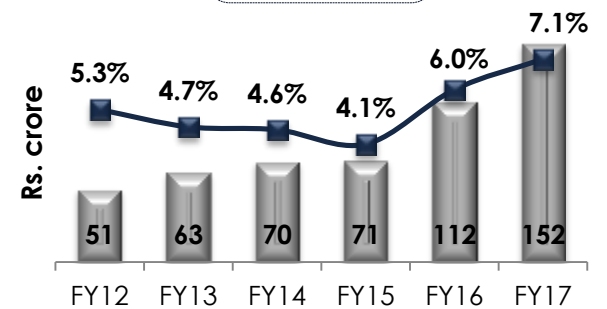
EBITDA and EBITDA Margins

CAGR – 20%



PAT and PAT Margins

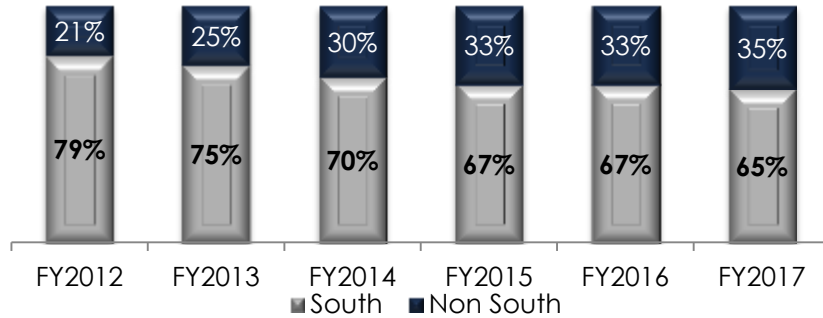
CAGR – 24%



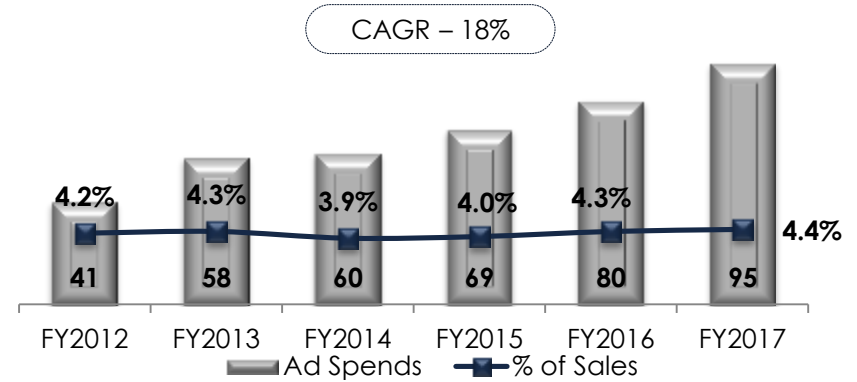
Note: Numbers are in IGAAP.

Operational Highlights (FY12-17)

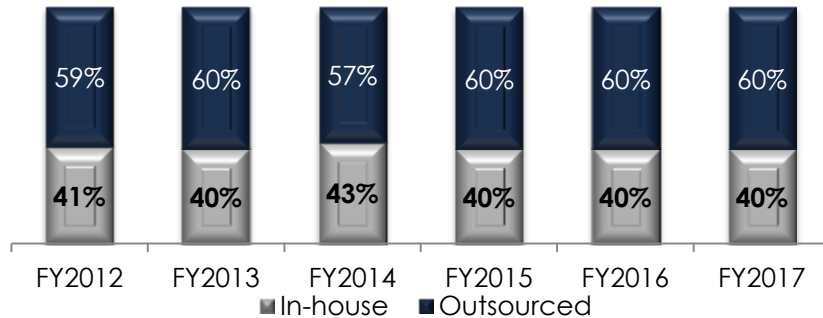
Expanding Geographic Presence



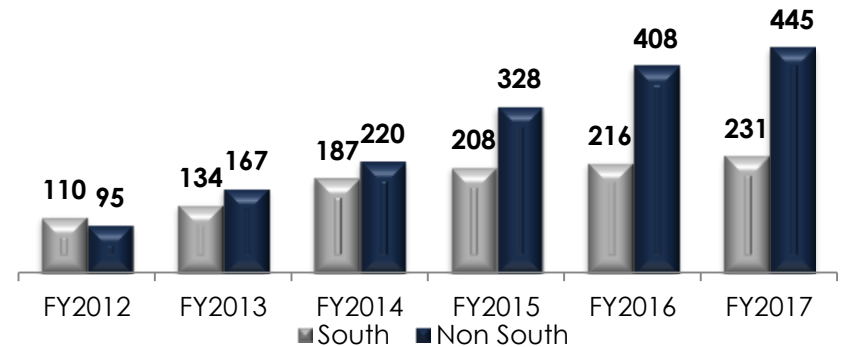
Ad Spends and as a % of Sales



In-house Manufacturing vs. Outsourcing



Strong Growth in Distributor Network

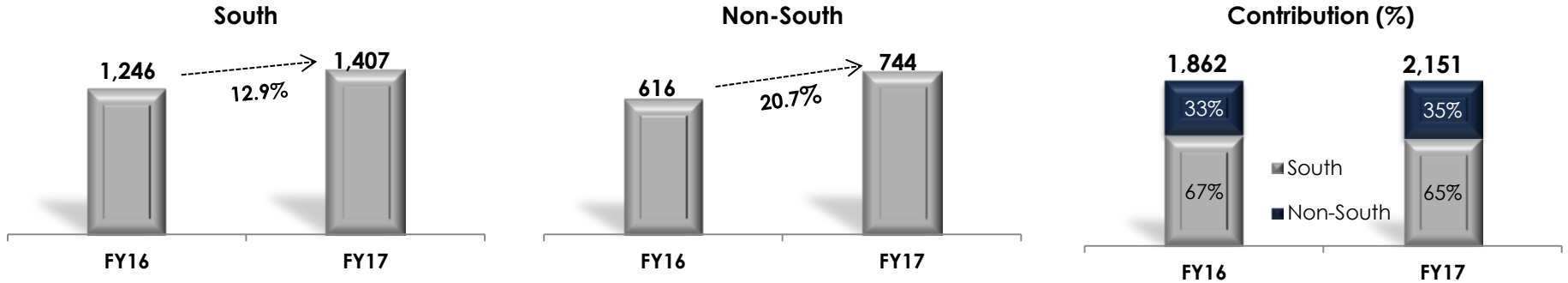


Segment-wise Breakup of Revenues – FY17 vs FY16

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			
 <p>MOTOR PUMPS</p>	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
 <p>WATER HEATERS</p>	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
 <p>FANS</p>	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 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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