



V-Guard Industries

Q2 FY2016 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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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 28 branches nationwide
- Network of over 585 distributors, 5,532 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 26% and 16% between FY11-15
- ROE at 19% and ROCE at 26% for FY2015

Managing Director's Message



Commenting on the performance for Q2 FY16, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,

“Our topline performance this quarter was impacted by some macro influences including a shorter summer season, weak housing demand and pressure on commodity prices. This resulted in weakness in some of our key products. The shortened summer season, resulted in lower AC sales during the quarter, and impacted the performance of the stabilizer segment, especially in the non-South markets. Despite recording volume growth, decline in copper prices resulted in subdued realizations in the wires segment, our largest segment. Digital UPS sales were also impacted with no major power cuts seen during the quarter.

Our focus in these challenging times has been on delivering operational excellence. During Q2, we have seen improved margins at the gross, operating and net levels. We have remained committed to growing our presence in the non-South markets. Now, 63% of our 585 distributors are outside South markets, providing us with expanded nationwide presence based on which the V-Guard brand continues to attain strong visibility. We have also continued to invest more aggressively in advertising and promotions, which constituted 3.7% of sales in Q2 compared to 3.3% of sales in the corresponding quarter last year.

This, along with our ongoing initiatives over the last year in managing inventories and working capital resulted in strong cash generation and significant reduction in debt to the tune of ~Rs. 91 crore during this period. As a result, V-Guard is on the threshold of becoming a debt-free company.

Going forward, we are hopeful that the recent rate cut by the RBI would result in uptick in demand in the second half of the year. While our growth trajectory is expected to pick up on the low base of H2 last year, our previous expectation of topline growth may need to be revised to 12% for FY16 with margins at the higher end of our guided 8-8.5% range.”

Key Highlights – Q2 FY2016

Revenue growth flat YoY at Rs. 433 crore

- Weak consumer sentiment attributed to the muted growth
- Wires segment impacted on account of lower realisations due to falling copper prices

Gross margin expands 180 bps YoY / 80 bps QoQ to 28.7%

- Gross profit up 7% YoY to Rs. 124 crore

EBITDA margins at 8.8%, up 30 bps YoY

- EBITDA growth of 4% YoY to Rs. 38 crore
- Ad expenditure to sales at 3.7x% vs 3.3% in Q2 FY15

PAT growth of 20% YoY to Rs. 23 crore

- PAT margin improves 90 bps YoY to 5.3%

Working capital improves by 5 days to 76 days in Q2 FY16

- Inventory days improve by 24 days YoY to 64 days
- Decline in creditor days based on conscious decision to limit bill discounting given strong cash generation and lower inventory levels

Healthy return ratios

- ROE and ROCE of 18.1% and 25.6% respectively (TTM)

Strong cash generation

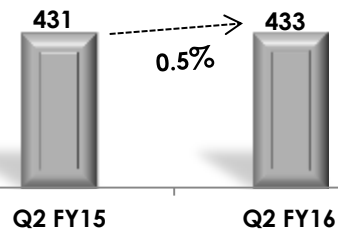
- CFO strong at Rs. 36 crore during Q2 FY16; Rs. 57.5 crore in H1 FY16
- D/E at 0.09x as on 30 Sep 2015 as compared to 0.36x as on 30 Sep 2014

Guidance for FY16

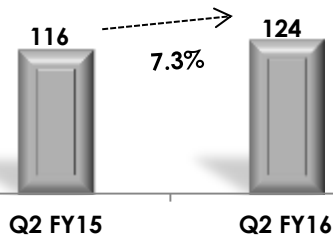
- Top line growth expectations revised to 12% YoY from 15%
- EBITDA margins expected to be towards higher end of 8-8.5% band

Financial Highlights (Q2 FY2016 vs Q2 FY2015)

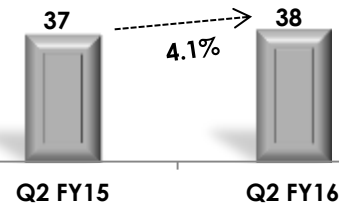
Total Income (Rs. crore)



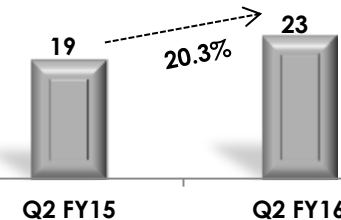
Gross Profit



EBITDA (Rs. crore)



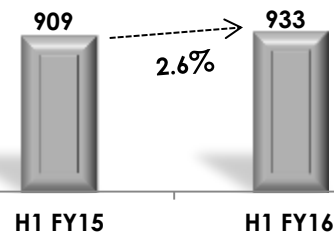
PAT (Rs. crore)



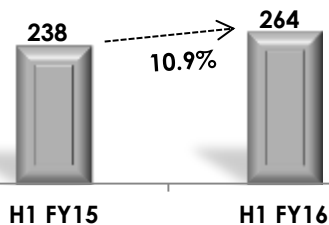
Key ratios (%)	Q2 FY16	Q2 FY15
Gross Margin	28.7%	26.9%
EBITDA Margin	8.8%	8.5%
Net Margin	5.3%	4.4%
Ad Expenditure (incl. promotions)/Total Revenues	3.7%	3.3%
Staff Cost/ Total Operating Income	7.2%	6.5%
Other Expenditure/ Total Operating Income	7.2%	6.5%
Tax rate	28.2%	30.7%
EPS (Rs.)	7.69	6.42

Financial Highlights (H1 FY2016 vs H1 FY2015)

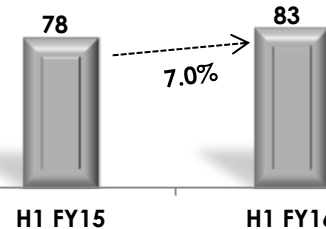
Total Income (Rs. crore)



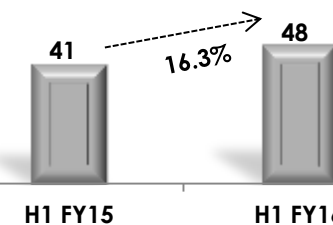
Gross Profit



EBITDA (Rs. crore)



PAT (Rs. crore)



Key ratios (%)	H1 FY16	H1 FY15
Gross Margin	28.3%	26.1%
EBITDA Margin	8.9%	8.6%
Net Margin	5.2%	4.6%
Ad Expenditure (incl. promotions)/Total Revenues	4.3%	4.0%
Staff Cost/ Total Operating Income	6.6%	5.9%
Other Expenditure/ Total Operating Income	6.5%	5.8%
Tax rate	30.5%	30.5%
EPS (Rs.)	16.08	13.88

Financial Highlights – Balance Sheet Perspective

Balance Sheet Snapshot (Rs. crore)	30 September 2015	30 June 2015	30 September 2014
Net worth	427.8	403.6	360.4
Total debt	38.6	52.5	129.1
o Working capital	12.5	24.0	93.2
o Term loan	26.1	28.5	35.9
Acceptances	22.6	33.5	71.6

Key Ratios	30 September 2015	30 June 2015	30 September 2014
Debtor (days)	50	51	44
Inventory (days)	64	70	88
Creditor (days)	38	45	51
Working Capital Turnover (days)	76	75	81
RoE (%)	18%	18%	22%
RoCE (%)	26%	26%	25%
Gross Debt / Equity (x)	0.09	0.13	0.36

Please note all calculations are based on a TTM basis

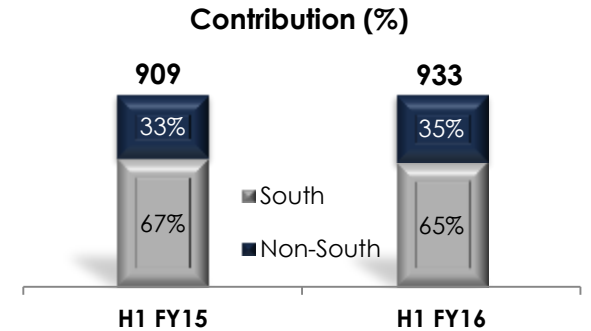
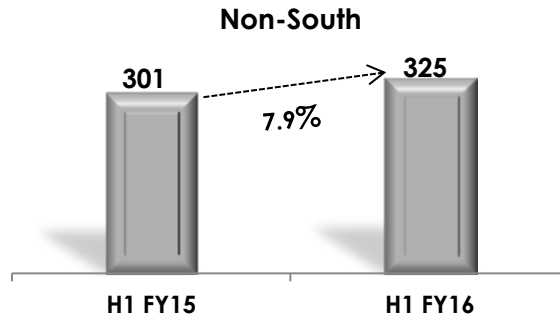
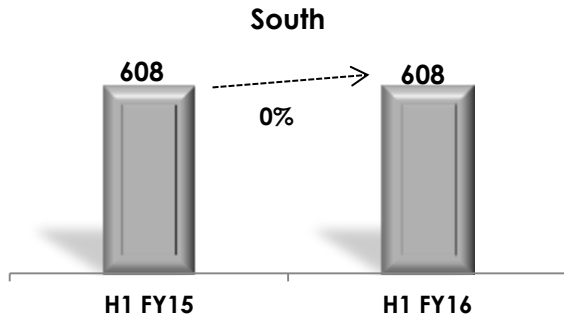
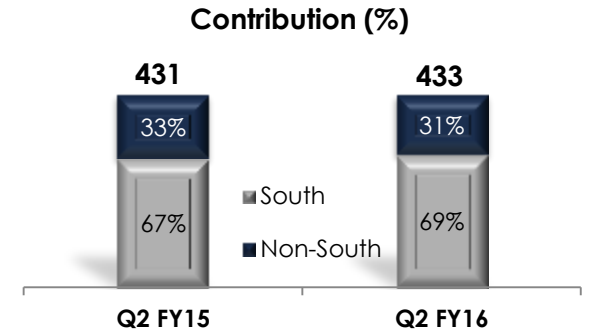
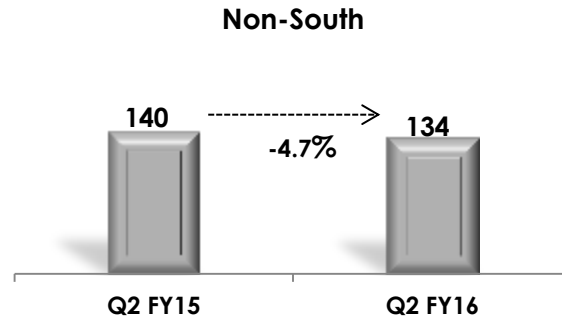
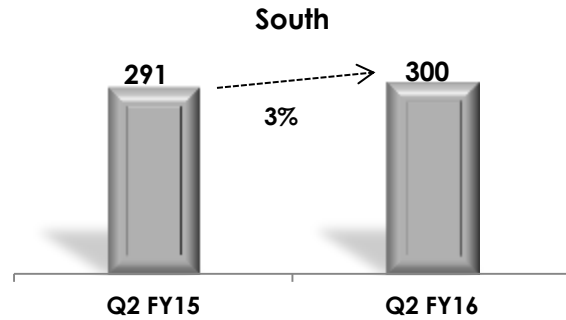
Segment-wise Breakup of Revenues – Q1 FY16 vs Q1 FY15

Products	Q2 FY2016 (Rs. cr.)	Contribution (%)	Q2 FY2015 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	71.6	16.5%	67.9	15.7%	5.5%
UPS (Digital + Standalone)	48.4	11.2%	53.6	12.4%	-9.6%
Electronics Segment Total	120.0	27.7%	121.4	28%	-1.2%
Pumps	41.4	9.5%	40.1	9.3%	3.2%
Cables & Wires (PVC + LT)	149.1	34.4%	156.3	36.2%	-4.6%
Water Heaters (Electric + Solar)	73.6	17.0%	72.4	16.8%	1.7%
Fan	28.5	6.6%	21.0	4.9%	35.8%
Electricals Segment Total	292.5	67.5%	289.7	67%	1.0%
Kitchen Appliances (Induction Cooktops + Mixers)	13.3	3.1%	14.9	3.5%	-10.8%
Switchgears	7.7	1.8%	5.2	1.2%	46.5%
New Products Total	21.0	4.8%	20.1	5%	4.1%
GRAND TOTAL	433.4	100.0%	431.3	100%	0.5%

Segment-wise Breakup of Revenues – H1 FY16 vs H1 FY15

Products	H1 FY2016 (Rs. cr.)	Contribution (%)	H1 FY2015 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	191.2	20.5%	178.9	19.7%	6.9%
UPS (Digital + Standalone)	107.9	11.6%	136.6	15.0%	-21.0%
Electronics Segment Total	299.2	32.1%	315.5	35%	-5.2%
Pumps	92.7	9.9%	89.8	9.9%	3.2%
Cables & Wires (PVC + LT)	303.6	32.5%	297.9	32.8%	1.9%
Water Heaters (Electric + Solar)	123.3	13.2%	109.3	12.0%	12.8%
Fan	78.6	8.4%	65.3	7.2%	20.4%
Electricals Segment Total	598.1	64.1%	562.2	62%	6.4%
Kitchen Appliances (Induction Cooktops + Mixers)	20.6	2.2%	22.1	2.4%	-6.7%
Switchgears	14.8	1.6%	9.2	1.0%	61.7%
New Products Total	35.4	3.8%	31.2	3%	13.4%
GRAND TOTAL	932.7	100.0%	908.9	100%	2.6%

Geographical Breakup of Gross 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 FY2016

Working Capital Efficiencies

- Target to reduce cash conversion cycle by 5 days every year through vendor financing and bill discounting initiatives
- Increased pricing power in non-South markets, will help to improve debtor days

Financial Performance

- Topline growth expectations revised to 12% from 15% earlier
- EBITDA margins expected to be towards the upper end of stated band of 8-8.5% for FY16

Annexure

Production Model



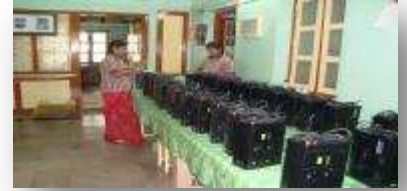
PVC Cable Factory



LT Cable Factory



Solar Water Heater Factory



Stabilizer Manufacturing Units

Product	No. of Units	Location
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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

Outsourced production facilities

Stabilizers	63	Across India
Pump	20	"
Fan	6	"
UPS	12	"
Elec. Water Heater	7	"

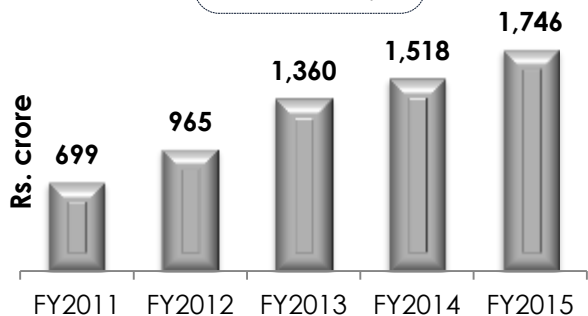
Outsourcing Objectives

- 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 (FY11-15)

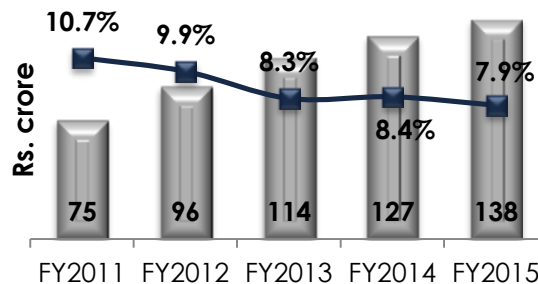
Revenue

CAGR – 26%



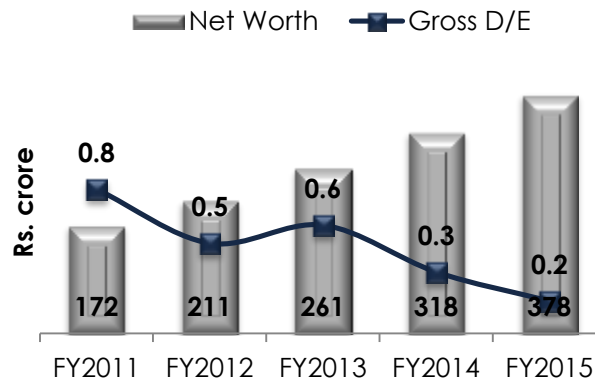
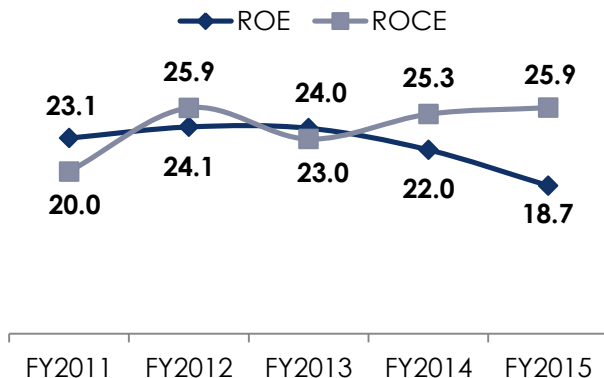
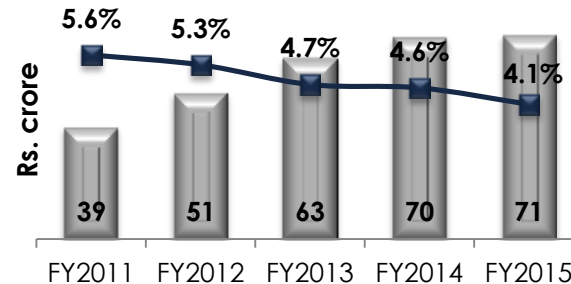
EBITDA and EBITDA Margins

CAGR – 16%



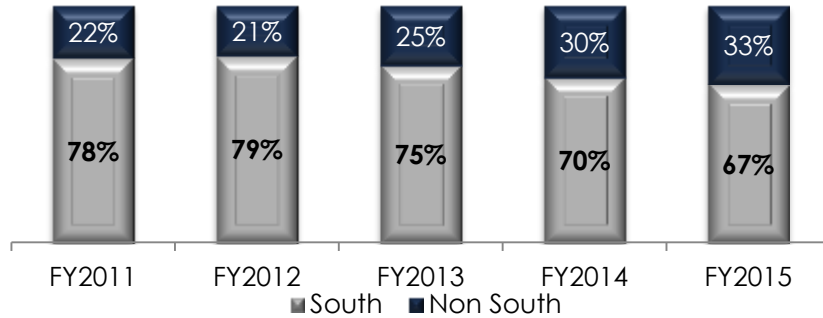
PAT and PAT Margins

CAGR – 16%

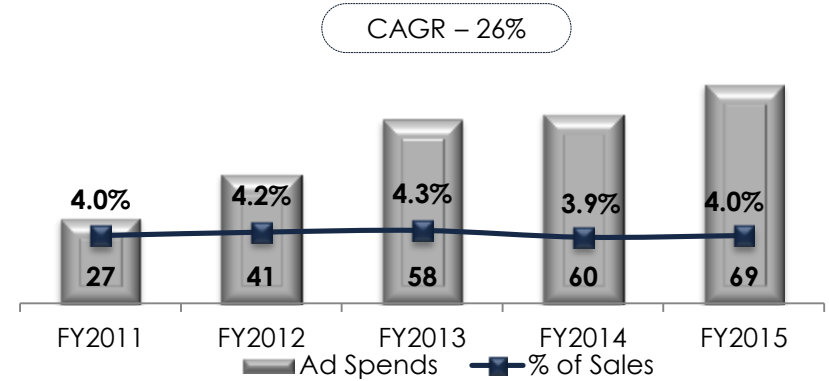


Operational Highlights (FY11-15)

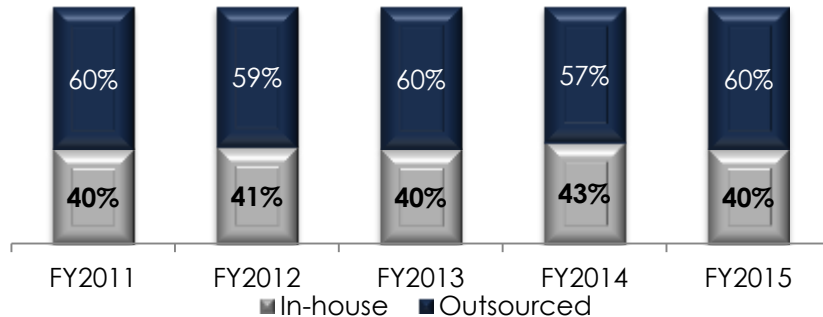
Expanding Geographic Presence



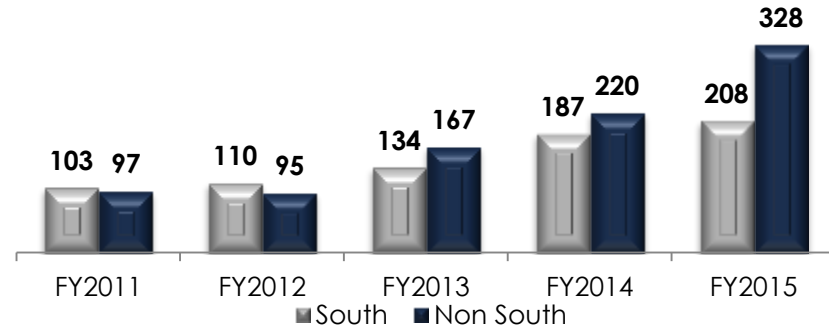
Ad Spends and as a % of Sales



In-house Manufacturing vs. Outsourcing



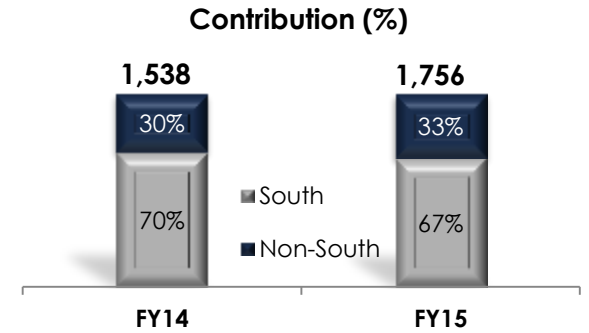
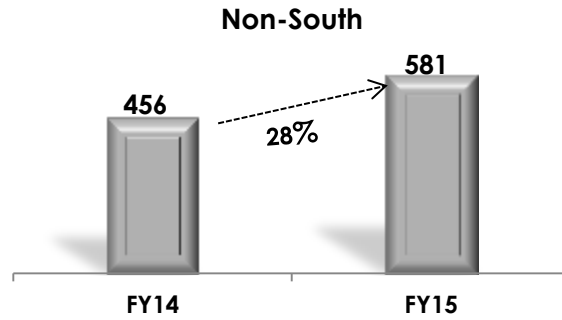
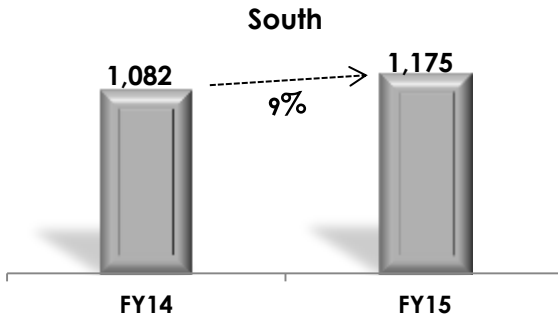
Strong Growth in Dealer Network






Segment-wise Breakup of Revenues – FY15 vs FY14

Products	FY2015 (Rs. cr.)	Contribution (%)	FY2014 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	326.8	19%	266.4	17.6%	22.7%
UPS (Digital + Standalone)	222.1	13%	184.0	12.1%	20.7%
Electronics Segment Total	548.9	31%	450.4	30%	21.9%
Pumps	189.0	11%	202.2	13.3%	-6.5%
Cables & Wires (PVC + LT)	583.7	33%	546.5	31%	6.8%
Water Heaters (Electric + Solar)	228.0	13%	175.1	11.5%	30.2%
Fan	137.5	8%	102.4	6.7%	34.3%
Electricals Segment Total	1,138.1	65%	1,026.2	67.6%	10.9%
Kitchen Appliances (Induction Cooktops + Mixers)	36.9	2%	25.0	1.6%	47.7%
Switchgears	22.1	1%	16.0	1.1%	37.8%
New Products Total	58.9	3%	41.0	3%	43.8%
GRAND TOTAL	1,745.9	100%	1,517.6	100%	15.0%

Geographic Breakup of Revenues – FY15 vs FY14



Market Size across Product Segments

Product	Market Size (Rs. Crore)*			Key Players	Production Model	Distribution Channel Strategy
	Organised	Unorganised	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
	Organised	Unorganised	Total			
 <p>MOTOR PUMPS</p>	900.00	1,100.00	2,000.00	Crompton Greaves, Kirloskar, CRI, Texmo	90% Outsourced	Electrical and hardware Stores, Pump and Pipe fittings Stores
 <p>WATER HEATERS</p>	650.00	550.00	1,200.00	A.O. Smith, Racold, Bajaj, Venus, Crompton Greaves	90% Outsourced	Consumer Durable stores , Electrical and Hardware Stores
 <p>FANS</p>	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
	Organised	Unorganised	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	Tata BP 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 28 branches, 585 distributors, 5,532 channel partners and ~25,000+ retailers across the country.

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The image features a large red circle on the left side, partially cut off by the edge. On the right side, there are two abstract, flame-like or feather-like shapes in red and black, extending from the top and bottom edges towards the center. The background is white.

THANK YOU