

# V-Guard Industries

Q1 FY20 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 FY20, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,** *“We have made a steady start to the year with a top line growth of over 10% and PAT growth of 52% in Q1 FY20. We are making good progress in the non-South markets, which delivered 14% growth. We plan to extend our new products into some non-South markets during the year, which contributed 46% to revenues compared to 44% a year ago. South markets recorded a steady growth of 7.1% during the quarter.*

*The Electronics and Consumer Durables segments performed well during the quarter under review, recording strong growth and margin expansion. The Electricals segment was impacted by de-stocking of wires by the trade on account of the volatility in copper prices. Despite this, we have been able to drive gross margins expansion of 220 bps YoY to 32.6% while EBITDA margins stood at 11.1% in Q1 FY20 as compared to 7.8% in Q1 FY19. Ad/promotional spends stood at 4.7% of sales in Q1 FY20 as compared to 6.4% in Q1 FY19 which had some spillover from the brand rejuvenation exercise launched Q4 FY18.*

*Another key highlight of the quarter has been the working capital efficiency we have been able to drive which has resulted in robust cash flows to the tune of Rs. 183 crore, higher by 137% as compared to Rs. 77 crore in Q1 FY19. Our prudent approach and focus on profitable and sustainable growth has resulted in an 11-day improvement in our working capital cycle, which further strengthened our balance sheet with net cash of Rs. 325 crore.*

*Overall, we are happy with the progress we are making in our new categories and new markets. As part of our transformational future-led journey, we are also moving towards becoming a deeper product capability driven organisation, with innovation, quality and cost efficiency as key levers of competitiveness. Our enhanced manufacturing strength and brand visibility will also help further scale up our business proposition and consumer connect. Sustained and focused expansion into the non-South markets, backed by continued investment in enhancing our organisational capabilities, will further improve our competitive edge.”*

# Key Highlights – Q1 FY20



## Revenue growth of 10.2% YoY in Q1 FY20

- Q1 FY20 revenue up 10.2% YoY to Rs. 699 crore
- Led by robust growth of 14% in non-South markets with the extended summer season
- Non-South markets accounted for 46% of the net revenue in Q1 FY20 against 44% in Q1 FY19
- Electronics and Consumer Durables segments drove the growth during Q1 FY20 while Electricals Segment was impacted by trade destocking of wires category caused by downward trend in copper prices

## EBITDA up 56.1% YoY, PAT by 52.5% in Q1 FY20

- Gross margins expand 220 bps YoY to 32.6%
- EBITDA margins at 11.1% in Q1 FY20 as compared to 7.8% in Q1 FY19
- Ad/promotional spends lower at 4.7% of sales in Q1 FY20 as compared to 6.4% in Q1 FY19; base year had higher spends based on some spillover from the brand rejuvenation exercise launched Q4 FY18
- Q1 FY20 PAT of Rs. 53 crore, up 52.5%; PAT margin at 7.5% in Q1 FY20 as against 5.4% in Q1 FY19

## Strong cash flow generation; Balance sheet continues to be strong

- Strong cash generation continues, CFO at Rs. 183 crore at the end of Q1 FY19 as compared to Rs. 77 crore in Q1 FY19
- Working capital cycle improves by 11 days YoY to 51 days
- Strong return ratios maintained with ROE and ROCE of 19.2% and 22.9% respectively (TTM basis) at the end of Q1 FY20
- Net cash of Rs.325 crore on balance sheet as on 30<sup>th</sup> June 2019

# P&L Snapshot

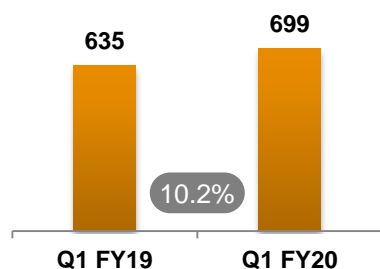


| P&L Statement                           | Q1 FY20  | Q1 FY19  | Change | Q4 FY 19 | FY 19    | FY 18    | Change |
|---|----------|----------|--------|----------|----------|----------|--------|
| Particulars                             | (Rs. Cr) | (Rs. Cr) | %      | (Rs. Cr) | (Rs. Cr) | (Rs. Cr) | %      |
| Net Revenue                             | 699.39   | 634.89   | 10.2%  | 739.69   | 2,566.44 | 2,321.27 | 10.6%  |
| COGS                                    | 471.71   | 441.92   | 6.7%   | 471.71   | 1,799.18 | 1,624.65 | 10.7%  |
| Gross Margin                            | 32.6%    | 30.4%    | 2.2%   | 36.2%    | 29.9%    | 30.0%    | -0.1%  |
| EBITDA (excluding other income)         | 71.12    | 46.47    | 53.0%  | 78.15    | 219.42   | 186.96   | 17.4%  |
| as a % of Net Revenue                   | 10.2%    | 7.3%     | 2.8%   | 10.6%    | 8.5%     | 8.1%     | 0.5%   |
| Other Income (including finance income) | 6.45     | 3.23     | 99.9%  | 6.76     | 18.25    | 11.11    | 64.2%  |
| EBITDA after other income               | 77.57    | 49.70    | 56.1%  | 84.90    | 237.68   | 198.07   | 20.0%  |
| as a % of Net Revenue                   | 11.1%    | 7.8%     | 3.3%   | 11.5%    | 9.3%     | 8.5%     | 0.7%   |
| PBT                                     | 69.77    | 44.22    | 57.8%  | 79.13    | 214.58   | 177.30   | 21.0%  |
| as a % of Net Revenue                   | 10.0%    | 7.0%     | 3.0%   | 10.7%    | 8.4%     | 7.6%     | 0.7%   |
| PAT                                     | 52.45    | 34.40    | 52.5%  | 59.24    | 165.52   | 133.11   | 24.3%  |
| as a % of Net Revenue                   | 7.5%     | 5.4%     | 2.1%   | 8.0%     | 6.4%     | 5.7%     | 0.7%   |

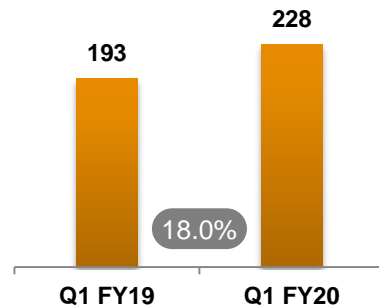
Note: Adopted Ind-AS 116 (Leases) from April 1, 2019. The impact on Profit Before Tax is not material.

# Financial Highlights (Q1 FY20 vs Q1 FY19)

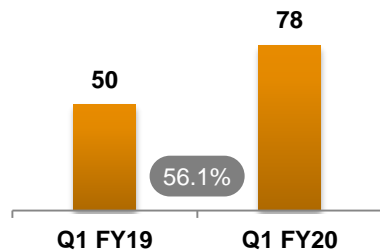
**Total Income (Rs. crore)**



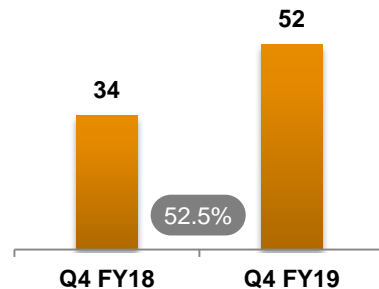
**Gross Profit**



**EBITDA (Rs. crore)**



**PAT (Rs. crore)**



| Key ratios (%)                            | Q1 FY20 | Q1 FY19 |
|---|---------|---------|
| Gross Margin                              | 32.6%   | 30.4%   |
| EBITDA Margin (incl other income)         | 11.1%   | 7.8%    |
| Net Margin                                | 7.5%    | 5.4%    |
| Ad Exp (incl. promotions)/Total Revenues  | 4.7%    | 6.4%    |
| Employee Cost/ Total Operating Income     | 8.6%    | 7.8%    |
| Other Expenditure/ Total Operating Income | 13.8%   | 15.2%   |
| Tax rate                                  | 24.8%   | 22.2%   |
| Diluted EPS (Rs.)                         | 1.21    | 0.79    |

# Financial Highlights – Balance Sheet Perspective



| Balance Sheet Snapshot (Rs. cr) | 30 June 2019 | 31 Mar 2019 | 30 June 2018 |
|---------------------------------|--------------|-------------|--------------|
| Net worth                       | 955.2        | 899.7       | 791.6        |
| Gross debt                      | 10.0         | 10.0        | 11.6         |
| Current Investments             | 166.6        | 83.1        | 145.2        |
| Cash and cash equivalents       | 168.0        | 84.3        | 4.5          |
| Net Cash Position (Rs. crore)   | 324.6        | 157.4       | 136.2        |
| Fixed Assets                    | 268.6        | 221.2       | 210.6        |

*Note: Increase in Fixed Assets to the tune of Rs 29.2 crore on account of adopted Ind-AS 116 from April 1, 2019.*

| Balance Sheet Snapshot (Rs. cr) | 30 June 2019 | 31 Mar 2019 | 30 June 2018 |
|---------------------------------|--------------|-------------|--------------|
| Debtor (days)                   | 56           | 66          | 56           |
| Inventory (days)                | 61           | 75          | 67           |
| Creditor (days)                 | 65           | 72          | 61           |
| Working Capital Turnover (days) | 51           | 69          | 62           |
| RoE* (%)                        | 19.2%        | 18.4%       | 18.2%        |
| RoCE* (%)                       | 22.9%        | 21.3%       | 22.5%        |

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



# Segment-wise Breakup – Q1 FY20 vs Q1 FY19



| Segment Revenue    | Q1 FY20<br>(Rs. Cr) | Contribution (%) | Q1 FY19<br>(Rs. Cr) | Contribution (%) | YoY growth<br>(%) |
|--------------------|---------------------|------------------|---------------------|------------------|-------------------|
| Electronics        | 282.8               | 40%              | 240.5               | 38%              | 17.6%             |
| Electricals        | 263.2               | 38%              | 261.4               | 41%              | 0.7%              |
| Consumer Durables  | 153.4               | 22%              | 133.0               | 21%              | 15.3%             |
| <b>Grand Total</b> | <b>699.4</b>        | <b>100%</b>      | <b>634.9</b>        | <b>100%</b>      | <b>10.2%</b>      |

| Segment Result     | Q1 FY20<br>(Rs. Cr) | Margin (%)  | Q1 FY19<br>(Rs. Cr) | Margin (%)  | YoY growth<br>(%) |
|--------------------|---------------------|-------------|---------------------|-------------|-------------------|
| Electronics        | 49.6                | 17.5%       | 22.4                | 9.3%        | 122.0%            |
| Electricals        | 13.2                | 5.0%        | 18.3                | 7.0%        | -28.1%            |
| Consumer Durables  | 6.6                 | 4.3%        | 3.8                 | 2.9%        | 72.3%             |
| <b>Grand Total</b> | <b>69.4</b>         | <b>9.9%</b> | <b>44.5</b>         | <b>7.0%</b> | <b>56.0%</b>      |

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 FY20<br>(Rs. Cr) | Contribution (%) | Q1 FY19<br>(Rs. Cr) | Contribution (%) | YoY growth (%) |
|----------------------|---------------------|------------------|---------------------|------------------|----------------|
| South                | 379.8               | 54.3%            | 354.6               | 55.9%            | 7.1%           |
| Non-South            | 319.6               | 45.7%            | 280.3               | 44.1%            | 14.0%          |
| <b>Total Revenue</b> | <b>699.4</b>        | <b>100%</b>      | <b>634.9</b>        | <b>100%</b>      | <b>10.2%</b>   |

# Business Outlook



- The Company is confident of achieving a topline growth of 15% over the next few years driven by expansion into non-South markets and introduction of new product categories.
- We continue to undertake business strengthening initiatives and putting in place best in class processes and systems to future-proof the organization. We are focused on 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. 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 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 us to pursue inorganic opportunities, if valuations favour. 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, 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 ~58% 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                 |
|---|--------------|--------------------------|
| <b>Own Manufacturing Facilities</b>     |              |                          |
| 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                   |
| <b>Outsourced production facilities</b> |              |                          |
| Stabilizers                             | 57           | Across India             |
| Pumps                                   | 18           | "                        |
| Fans                                    | 11           | "                        |
| UPS                                     | 9            | "                        |

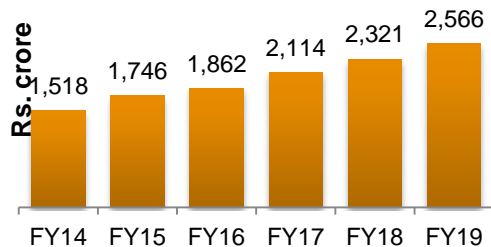
## Outsourcing Objectives

- 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
- Blended manufacturing policy helps optimize capex and working capital requirements

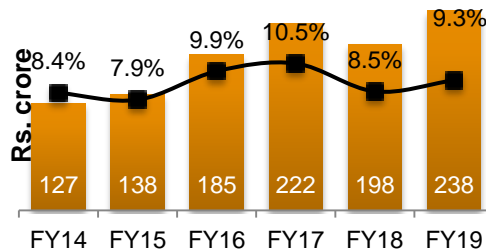
# Financial Highlights (FY14-19)



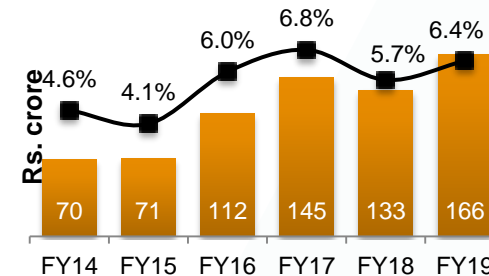
### Revenue



### EBITDA and EBITDA Margins

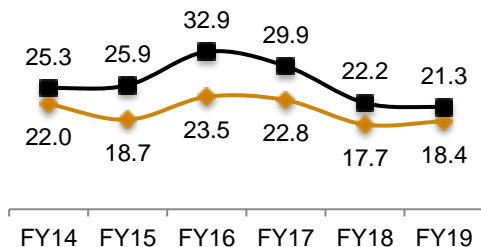


### PAT and PAT Margins

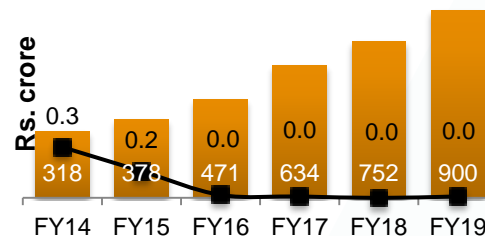


**Note 1:**Please note that consequent to the introduction of Goods and Service Tax (GST) with effect from July 01, 2017, Central Excise, Value Added Tax (VAT), etc. have been subsumed into GST. In accordance with Indian Accounting Standard - 18 on Revenue and Schedule III of the Companies Act, 2013, 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.

### ROE ROCE



### Net Worth Gross D/E

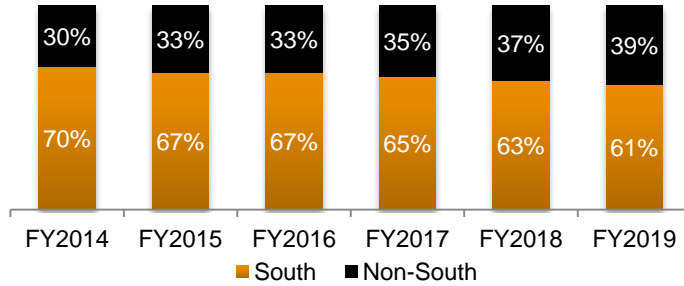


**Note 3:** V-Guard adopted Ind-AS framework starting FY18. Numbers for FY17 have been reinstated in compliance with Ind-AS to draw meaningful comparison. Prior period numbers are in IGAAP and not comparable.

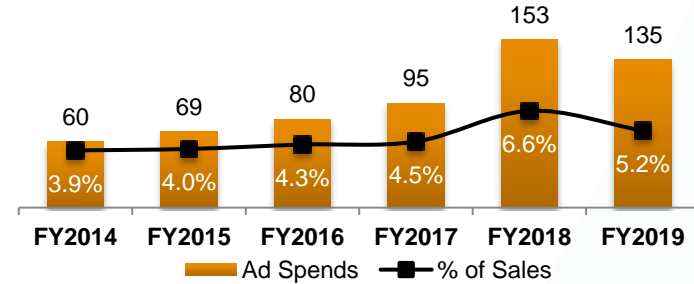
# Operational Highlights (FY14-19)



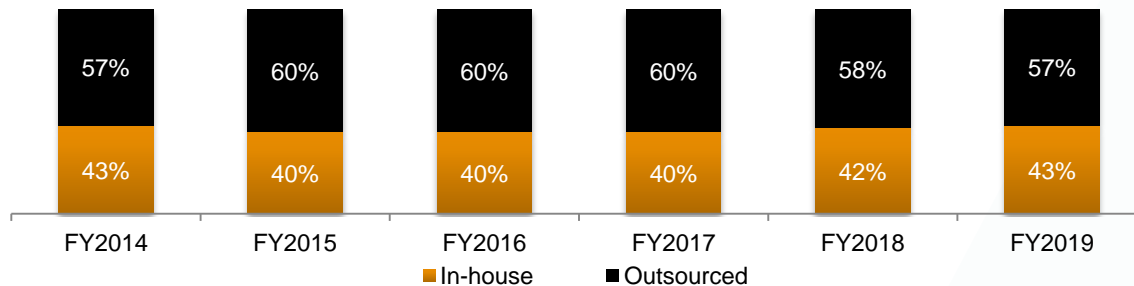
### Expanding Geographic Presence



### Ad & Promo Spends and as a % of Sales



### In-house Manufacturing vs. Outsourcing





# Market Size across Product Segments



| 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  |
|                               | <b>Total</b> | <b>1,250.00</b>  | <b>9,500.00</b>                              | <b>600.00 – 650.00</b>                                       | <b>10,500.00</b>  |
| 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<br>/Rs Crores*    | Organized    | 1,325.00   | 5,000.00   | 160.00                  | 4,500.00   |
|                               | Unorganized  | 700.00   | 1,500.00   | 240.00                  | 750.00   |
|                               | <b>Total</b> | <b>2,025.00</b>  | <b>6,500.00</b>  | <b>400.00</b>           | <b>5,250.00</b>  |
| 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 |

\*Company estimates FY16

# Market Size across Product Segments



| Products                      |              | SOLAR WATER HEATER                       | SWITCHGEAR                 | GAS STOVES                                    | MIXER GRINDERS                                   |
|-------------------------------|--------------|--|----------------------------|---|--|
| Market Size / Revenue*        | Organized    | 420.00                                   | 1,400.00                   | 1,000.00                                      | 1,500.00   |
|                               | Unorganized  | 180.00                                   | 600                        | 1,000.00                                      | 1,000.00   |
|                               | <b>Total</b> | <b>600.00</b>                            | <b>2,000.00^</b>           | <b>2,000.00</b>                               | <b>2,500.00</b>                                  |
| 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 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 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.



*For further information, please contact:*

**Sudarshan Kasturi (Senior VP & CFO)**

**V-Guard Industries Limited**

Tel: +91 484 300 5601

Email: sudarshan.kasturi@vguard.in

**Shiv Muttoo / Varun Divadkar**

**CDR India**

Tel: +91 22 6645 1207 / 9763702204

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



**THANK YOU**