



V-Guard Industries

Q2 & H1 FY2017 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 Q2 FY17, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,

“After a strong performance in Q1, we have carried the momentum into the second quarter recording a growth of 14.2% YoY over the same period last year. Realisations in the cables and wires division continue to be subdued on account of the decline in commodity prices as compared to corresponding quarter of last year, despite seeing healthy volume growth. Excluding cables and wires, overall revenue growth for Q2 FY17 was ~20%.

Growth has been broad-based across all product categories driven by better market conditions and good response during Onam. The water heater segment (including solar water heaters) grew 25% YoY, pumps segment grew 20% YoY, stabilizers grew 15% YoY, fans 18% YoY and UPS category grew 12.5% YoY. Amongst the new product categories, switchgears recorded a growth of 31% YoY while our kitchen appliances category grew by 45% YoY. During the quarter, we launched gas stoves in Kerala during the Onam season.

The several supply chain initiatives we have undertaken over the past year along with soft input prices have resulted in sustained increase in our gross margins which in Q2 FY17 stand at 32.7%, higher by 400 bps YoY and 180 bps QoQ. We continue to invest in enhancing our visibility in the non-South markets with advertising and promotion spends to the tune of 4.4% of sales this quarter as compared to 3.7% of sales in Q2 FY16. Despite the significantly higher spends, our EBITDA margins have expanded 270 bps YoY to 11.5%.

We are optimistic about our growth prospects going into the second half of the year and expect a topline growth of 15% with EBITDA margins of ~11% for FY17. Multiple factors such as improved monsoon, softer inflation, rate cut by RBI, stable GDP growth and anticipated payouts based on Seventh Pay Commission recommendations have led to expectation of improved consumer demand across the country going into the festive season.”

Key Highlights – Q2 FY2017

Revenue growth of 14.2% YoY at Rs. 495 crore

- Excluding cables & wires segment, overall revenue growth at ~20% YoY
- Broad-based growth across all product categories driven by better market conditions and good response during Onam

Gross margin expands 400 bps YoY/180 bps QoQ to 32.7%

- Gross profit up 30.1% YoY to Rs. 162 crore
- Led by lower input costs and cost savings from the various supply chain initiatives undertaken over the year

EBITDA margins at 11.5%, up 270 bps YoY

- EBITDA growth of 49.4% YoY to Rs. 57 crore, despite higher ad expenditure
- Ad expenditure to sales at 4.4% vs 3.7% in Q2 FY16

PAT growth of 70% YoY to Rs. 39 crore

- PAT margin improves 260 bps YoY to 7.9%
- Led by better EBITDA margins, reduced finance costs and lower tax rate

Working capital cycle improve by 9 days YoY in Q2 FY17

- Working capital cycle at 67 days in Q2 FY17 vs 76 days in Q2 FY16
- Led by 11 day YoY improvement in creditor days to 49 days YoY

Strong return ratios

- ROE and ROCE of 26% and 35% respectively (TTM)

Robust cash generation

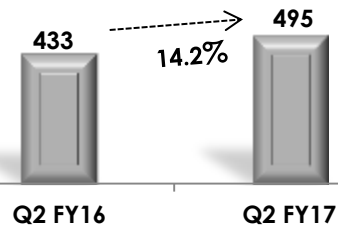
- CFO strong at Rs. 80 crore during H1FY17 as compared to Rs. 57 crore during H1 FY16
- D/E at 0.01x as on 30th September 2016 as compared to 0.09x as on 30th September 2015

Business Updates

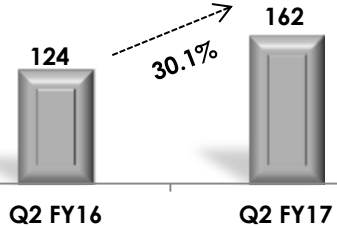
- Gas cooktops launched in Kerala during the Onam season

Financial Highlights (Q2 FY17 vs Q2 FY16)

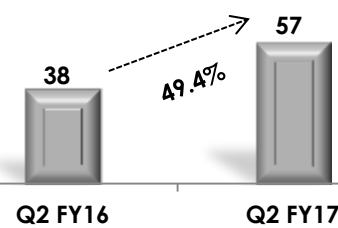
Total Income (Rs. crore)



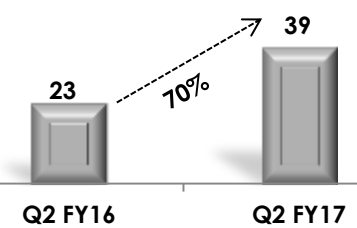
Gross Profit



EBITDA (Rs. crore)



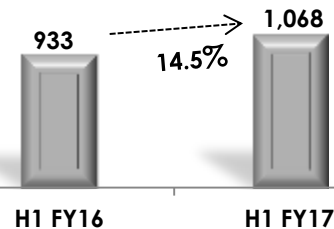
PAT (Rs. crore)



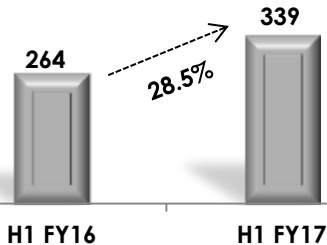
| Key ratios (%) | Q2 FY17 | Q2 FY16 |
|--|---------|---------|
| Gross Margin | 32.7% | 28.7% |
| EBITDA Margin | 11.5% | 8.8% |
| Net Margin | 7.9% | 5.3% |
| Ad Expenditure (incl. promotions)/Total Revenues | 4.4% | 3.7% |
| Staff Cost/ Total Operating Income | 6.6% | 6.3% |
| Other Expenditure/ Total Operating Income | 8.4% | 8.1% |
| Tax rate | 25.4% | 28.2% |
| EPS (Rs.) | 1.30 | 0.77 |

Financial Highlights (H1 FY17 vs H1 FY16)

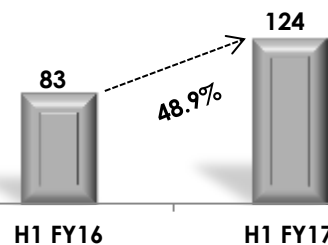
Total Income (Rs. crore)



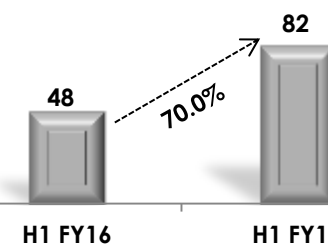
Gross Profit



EBITDA (Rs. crore)



PAT (Rs. crore)



| Key ratios (%) | H1 FY17 | H1 FY16 |
|--|---------|---------|
| Gross Margin | 31.7% | 28.3% |
| EBITDA Margin | 11.6% | 8.9% |
| Net Margin | 7.7% | 5.2% |
| Ad Expenditure (incl. promotions)/Total Revenues | 4.7% | 4.3% |
| Staff Cost/ Total Operating Income | 6.0% | 5.8% |
| Other Expenditure/ Total Operating Income | 7.5% | 7.3% |
| Tax rate | 28.7% | 30.5% |
| EPS (Rs.) | 2.72 | 1.61 |

Financial Highlights – Balance Sheet Perspective

| Balance Sheet Snapshot (Rs. crore) | 30 September 2016 | 30 June 2016 | 30 September 2015 |
|------------------------------------|-------------------|--------------|-------------------|
| Net worth | 557.8 | 514.6 | 427.8 |
| Total debt | 7.4 | 8.1 | 38.6 |
| o Working capital | 0.2 | 0.0 | 12.5 |
| o Term loan | 7.2 | 8.1 | 26.1 |
| Acceptances | 1.1 | 7.7 | 22.6 |
| Fixed Assets | 162.7 | 159.7 | 161.6 |

| Key Ratios | 30 September 2016 | 30 June 2016 | 30 September 2015 |
|---------------------------------|-------------------|--------------|-------------------|
| Debtor (days) | 49 | 50 | 50 |
| Inventory (days) | 67 | 55 | 64 |
| Creditor (days) | 49 | 52 | 38 |
| Working Capital Turnover (days) | 67 | 54 | 76 |
| RoE (%) | 26% | 25% | 18% |
| RoCE (%) | 35% | 35% | 26% |
| Gross Debt / Equity (x) | 0.01 | 0.02 | 0.09 |

Please note all calculations are based on a TTM basis

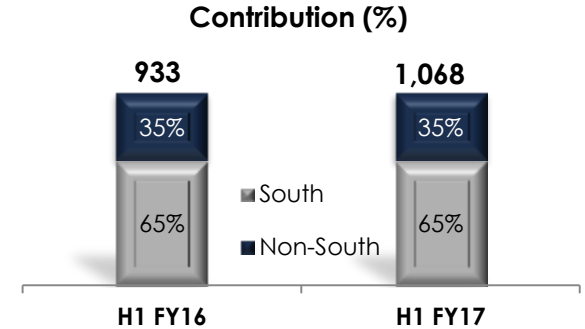
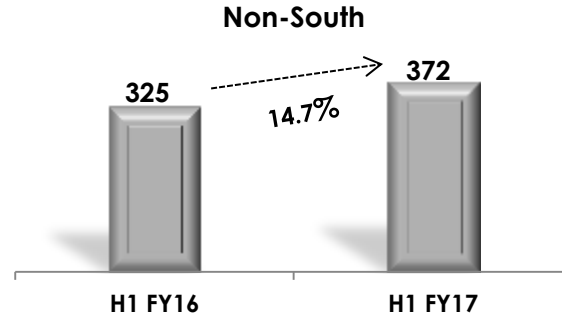
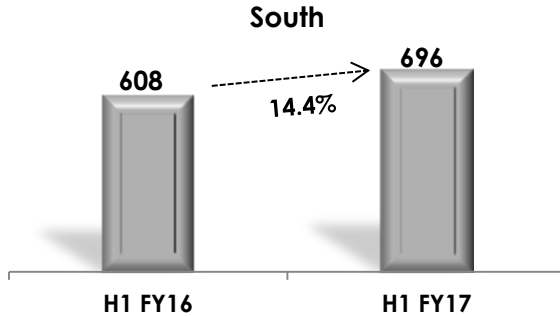
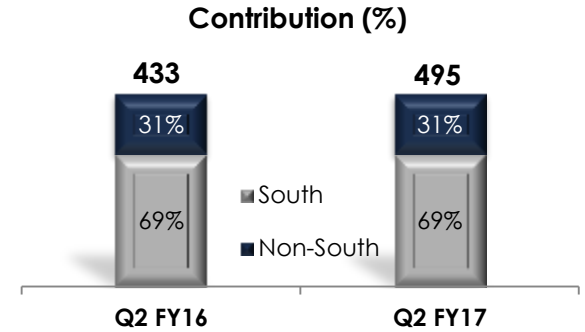
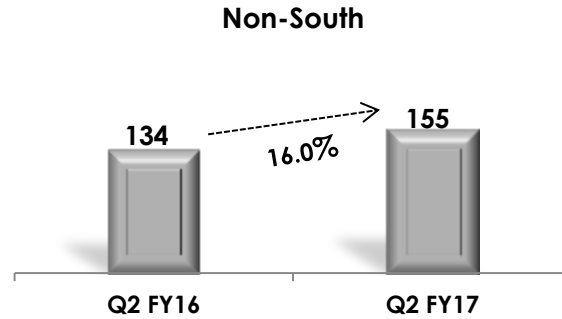
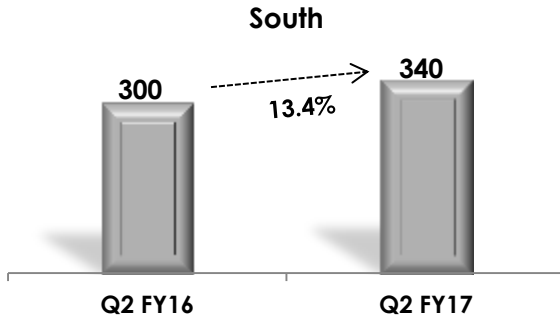
Segment-wise Breakup of Revenues – Q2 FY17 vs Q2 FY16

| Products | Q2 FY2017 (Rs. cr.) | Contribution (%) | Q2 FY2016 (Rs. cr.) | Contribution (%) | YoY growth (%) |
|--|------------------------|------------------|------------------------|------------------|----------------|
| Stabilizers | 82.1 | 16.6% | 71.6 | 16.5% | 14.7% |
| UPS (Digital + Standalone) | 54.5 | 11.0% | 48.4 | 11.2% | 12.5% |
| Electronics Segment Total | 136.6 | 27.6% | 120.0 | 28% | 13.8% |
| Pumps | 49.7 | 10.0% | 41.4 | 9.5% | 20.1% |
| Cables & Wires (PVC + LT) | 154.0 | 31.1% | 149.1 | 34.4% | 3.3% |
| Water Heaters (Electric + Solar) | 91.9 | 18.6% | 73.6 | 17.0% | 24.8% |
| Fan | 33.6 | 6.8% | 28.5 | 6.6% | 18.1% |
| Electricals Segment Total | 329.2 | 66.5% | 292.5 | 67% | 12.5% |
| Kitchen Appliances (Induction Cooktops + Mixers) | 19.3 | 3.9% | 13.3 | 3.1% | 45.2% |
| Switchgears | 10.1 | 2.0% | 7.7 | 1.8% | 31.2% |
| New Products Total | 29.3 | 5.9% | 21.0 | 5% | 40.1% |
| GRAND TOTAL | 495.1 | 100.0% | 433.4 | 100% | 14.2% |

Segment-wise Breakup of Revenues – H1 FY17 vs H1 FY16

| Products | H1 FY2017 (Rs. cr.) | Contribution (%) | H1 FY2016 (Rs. cr.) | Contribution (%) | YoY growth (%) |
|--|------------------------|------------------|------------------------|------------------|----------------|
| Stabilizers | 227.7 | 21.3% | 191.2 | 20.5% | 19.1% |
| UPS (Digital + Standalone) | 129.4 | 12.1% | 107.9 | 11.6% | 19.9% |
| Electronics Segment Total | 357.0 | 33.4% | 299.2 | 32% | 19.3% |
| Pumps | 117.5 | 11.0% | 92.7 | 9.9% | 26.8% |
| Cables & Wires (PVC + LT) | 307.7 | 28.8% | 303.6 | 32.5% | 1.4% |
| Water Heaters (Electric + Solar) | 143.7 | 13.5% | 123.3 | 13.2% | 16.5% |
| Fan | 93.6 | 8.8% | 78.6 | 8.4% | 19.2% |
| Electricals Segment Total | 662.6 | 62.1% | 598.1 | 64% | 10.8% |
| Kitchen Appliances (Induction Cooktops + Mixers) | 28.0 | 2.6% | 20.6 | 2.2% | 36.0% |
| Switchgears | 20.2 | 1.9% | 14.8 | 1.6% | 36.5% |
| New Products Total | 48.2 | 4.5% | 35.4 | 4% | 36.2% |
| GRAND TOTAL | 1,067.8 | 100.0% | 932.7 | 100% | 14.5% |

Geographical Breakup of 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 FY2017

Working Capital Efficiencies

- Target to reduce cash conversion cycle through various initiatives
- Increased pricing power in non-South markets, will help to improve debtor days

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 29 branches nationwide
- Network of over 632 distributors, 5,392 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 22% and 23% between FY11-16
- ROE at 23.5% and ROCE at 32.9% 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 | Kala Amb, Himachal Pradesh |
| Water Heater | 1 | Kala Amb, Himachal Pradesh |
| Solar Water Heaters | 1 | Perundhurai |
| Stabilizers | 1 | Sikkim |
| Outsourced production facilities | | |
| Stabilizers | 63 | Across India |
| Pump | 20 | " |
| Fan | 6 | " |
| UPS | 12 | " |
| Elec. Water Heater | 7 | " |

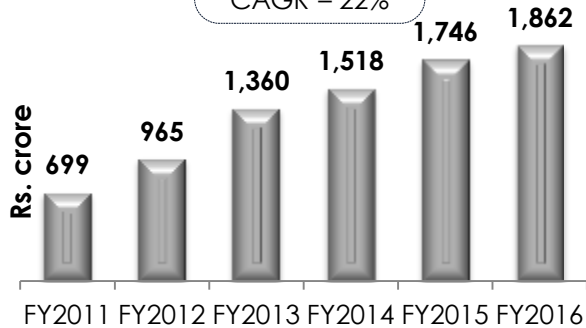
Outsourcing Objectives

- 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 (FY11-16)

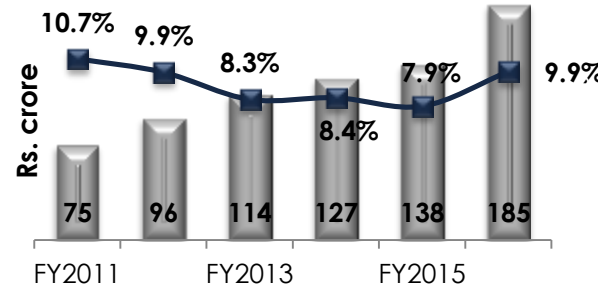
Revenue

CAGR – 22%



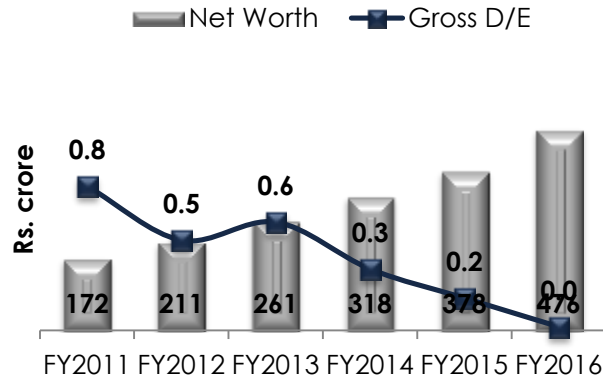
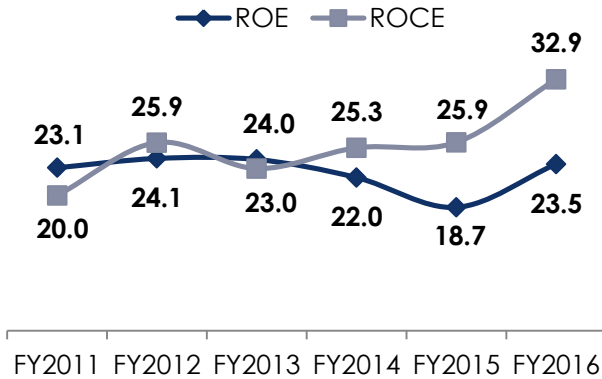
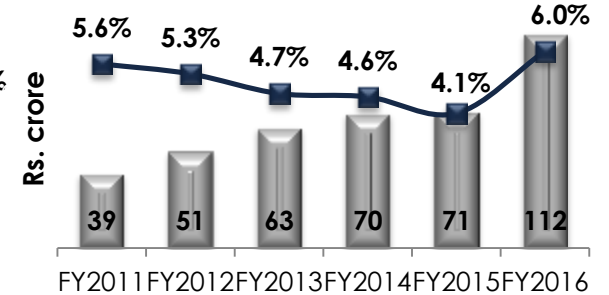
EBITDA and EBITDA Margins

CAGR – 20%



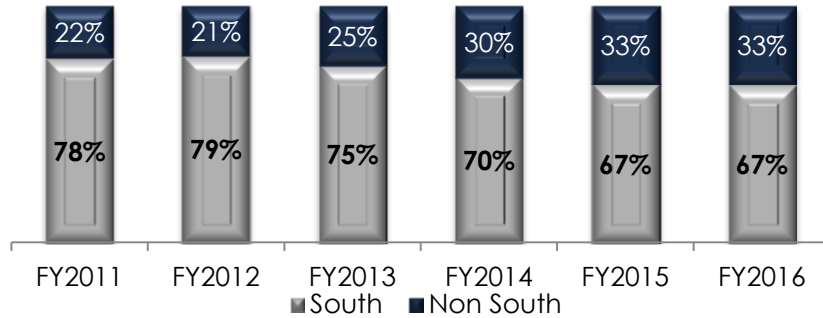
PAT and PAT Margins

CAGR – 23%

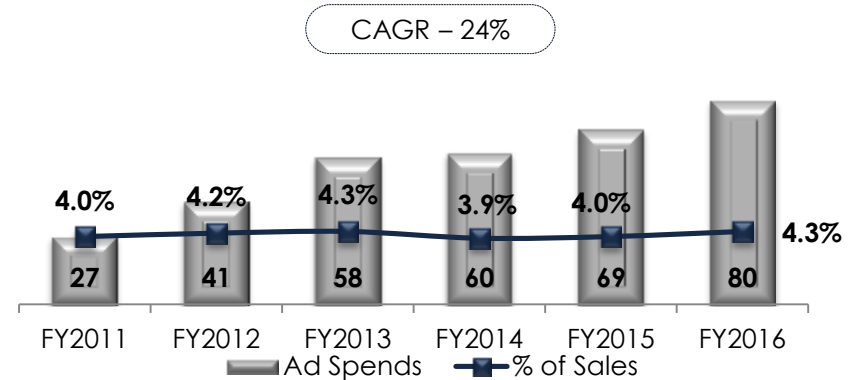


Operational Highlights (FY11-16)

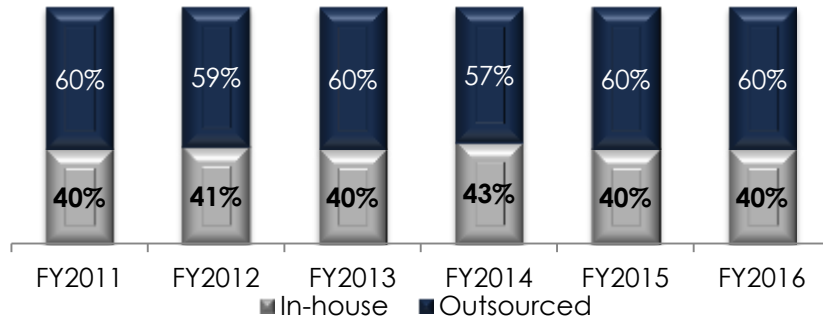
Expanding Geographic Presence



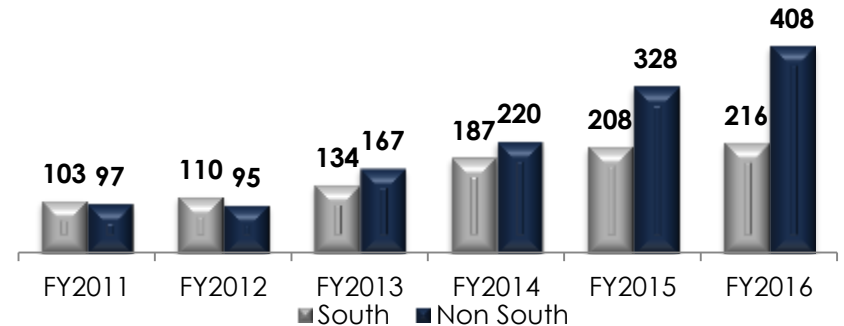
Ad Spends and as a % of Sales



In-house Manufacturing vs. Outsourcing



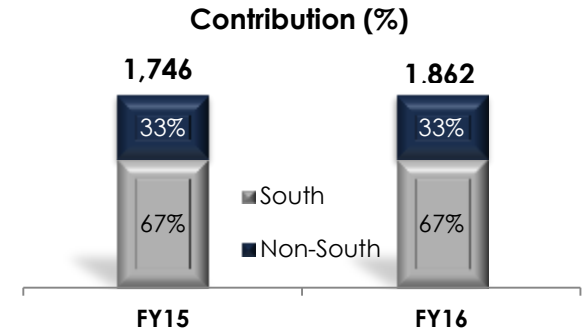
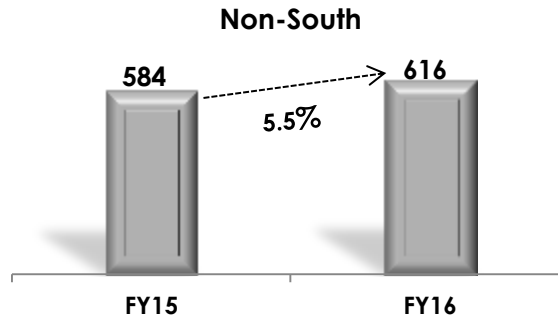
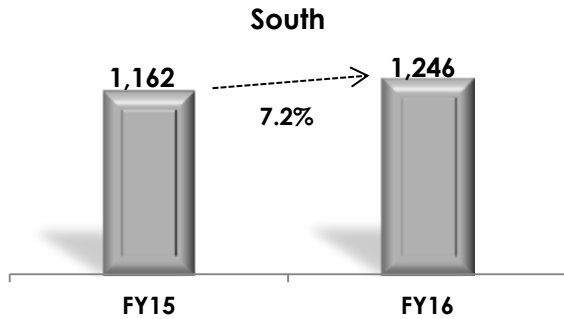
Strong Growth in Dealer Network






Segment-wise Breakup of Revenues – FY16 vs FY15

| Products | FY2016 (Rs. cr.) | Contribution (%) | FY2015 (Rs. cr.) | Contribution (%) | YoY growth (%) |
|--|---------------------|------------------|---------------------|------------------|----------------|
| Stabilizers | 369.1 | 19.8% | 326.8 | 18.7% | 13.0% |
| UPS (Digital + Standalone) | 193.6 | 10.4% | 222.1 | 12.7% | -12.8% |
| Electronics Segment Total | 562.7 | 30.2% | 548.9 | 31% | 2.5% |
| Pumps | 210.0 | 11.3% | 189.0 | 10.8% | 11.1% |
| Cables & Wires (PVC + LT) | 588.6 | 31.6% | 583.7 | 33.4% | 0.8% |
| Water Heaters (Electric + Solar) | 255.4 | 13.7% | 228.0 | 13.1% | 12.0% |
| Fan | 176.7 | 9.5% | 137.5 | 7.9% | 28.5% |
| Electricals Segment Total | 1,230.7 | 66.1% | 1,138.1 | 65% | 8.1% |
| Kitchen Appliances (Induction Cooktops + Mixers) | 35.8 | 1.9% | 36.9 | 2.1% | -2.9% |
| Switchgears | 33.0 | 1.8% | 22.1 | 1.3% | 49.6% |
| New Products Total | 68.8 | 3.7% | 58.9 | 3% | 16.8% |
| GRAND TOTAL | 1,862.3 | 100.0% | 1,745.9 | 100% | 6.7% |

Geographical Breakup of Revenues



Market Size across Product Segments

| Product | Market Size (Rs. Crore)* | | | Key Players | Production Model | Distribution Channel Strategy |
|--|--------------------------|-------------|----------|--|------------------|--|
| | Organized | Unorganized | Total | | | |
|  STABILIZERS | 400.00 | 800.00 | 1,200.00 | Bluebird, Capri, Logicstat, Premier, Everest | 90% 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 |
|--|--------------------------|-------------|----------|--|------------------|---|
| | Organized | Unorganized | 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 | 55% 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 |
|---|--------------------------|-------------|----------|----------------------------|------------------|--|
| | Organized | Unorganized | 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 | Racold, Emmvee 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 29 branches, 624 distributors, 5,562 channel partners and ~25,000+ retailers across the country.

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THANK YOU

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