V-GUARD

The name you can trust

V-Guard Industries

Q2 & H1 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 Q2 & H1 FY18, Mr. Mithun Chittilappilly, Managing Director – V-Guard Industries Limited said,

"We have delivered a good second quarter with a topline growth of 15.3% YoY. Adjusted for the GST related price impact across our product categories, the revenue growth is even stronger at over ~21% YoY. This quarter, we have seen a partial recovery of sales lost during Q1 due to channel de-stocking ahead of the GST implementation. We are cautiously optimistic and expect a full recovery over the next few quarters.

The growth has been broad-based across all our product categories driven by a good festive season. The kitchen appliances segment recorded its highest quarterly revenue at ~Rs. 25 crore, recording a robust growth of 37% YoY. The stabilizer and Digital UPS segments recorded a growth of over 21% YoY. Pumps segment grew 15.4% YoY, water heaters grew 15.2% YoY while fans segment grew 18.1% YoY.

We have continued to spend aggressively on enhancing our visibility in the non-South markets. Ad spends were to the tune of 5.7% of overall sales in Q2 FY18. This has led to 20.6% YoY growth in the non-South markets this quarter which contribute 32% of overall sales. The South markets grew 12.9% YoY.

We have seen a significant improvement in our margins this quarter driven by favourable product mix and better fixed cost absorption driven by strong revenue growth. Further, commodity price increases were passed on quickly to the market resulting in margin benefits. Our balance sheet remains strong with net cash of Rs 107 crore at the end of the quarter.

To conclude, this has been a satisfactory quarter post the turbulence in Q1. We are encouraged by a positive recovery seen in Q2 and we expect the re-stocking process to continue over the next two quarters. We are confident of maintaining our growth targets for the year."

Key Highlights – Q2 FY2018

Revenue growth of 15.3% YoY

- Adjusted for GST related price changes, revenue growth for the quarter stood at ~21% YoY
- Broad-based growth across all product categories led by kitchen appliances, stabilizers and Digital UPS
- Partial recovery seen of the sales lost due to GST in Q1; sales expected to fully recover over the upcoming quarters

Gross profit up 17.3% QoQ / 24.0% YoY

- Gross margins expanded 520 bps QoQ and 230 bps YoY to 32.2% with favourable product mix and better absorption of fixed costs on account of robust revenue growth
- Commodity price increases were passed on quickly in the market leading to a favourable impact on margins

EBITDA higher by 92.9% QoQ / 25.1% YoY

- EBITDA margins expand 100 bps YoY to 12.3%
- Ad expenditure to sales as 5.7% in Q2 FY18 as compared to 4.7% in Q1 FY18 and 4.5% in Q2 FY17

Working capital cycle at 64 days in Q2 FY18

- Working capital cycle at 64 days in Q2 FY18 vs 71 days in Q2 FY17
- Driven by improvement of 4 days YoY in creditor days and 3 days YoY reduction in inventory days
- Debtor days flat YoY

Strong return ratios

- Strong return ratios maintained with ROE and ROCE of 27.5% and 36.4% respectively (Quarterly Annualized)

Robust cash generation

- Cash flow from operations of Rs. 66.8 crore in H1 FY18
- Net cash of Rs. 102.6 crore on balance sheet as on 30th September 2017

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

Business Updates – Q2 FY18

- Roll-out of salesforce.com (a sales automation tool) pan India to enhance field productivity
- Initiated Phase-II of project "Udaan" to enhance supply chain logistics
- Launched gas cooktops during Onam season this quarter

Ind-AS Impact on V-Guard

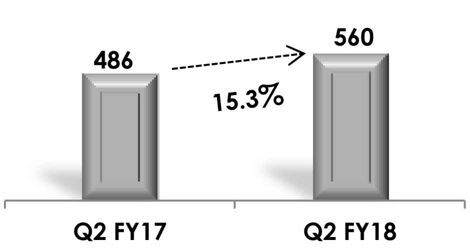
Key Ind-AS Adjustments

- 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
- Comparable prior period numbers have been restated in compliance with Ind-AS

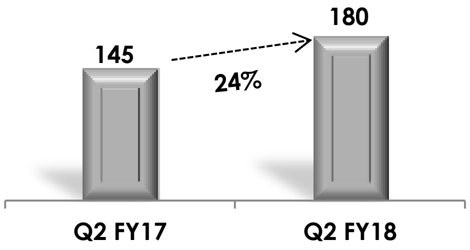
Financial Highlights (Q2 FY18 vs Q2 FY17)

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

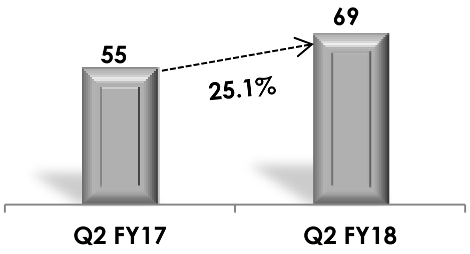
Total Income (Rs. crore)



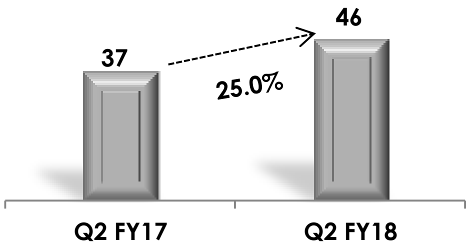
Gross Profit



EBITDA (Rs. crore)



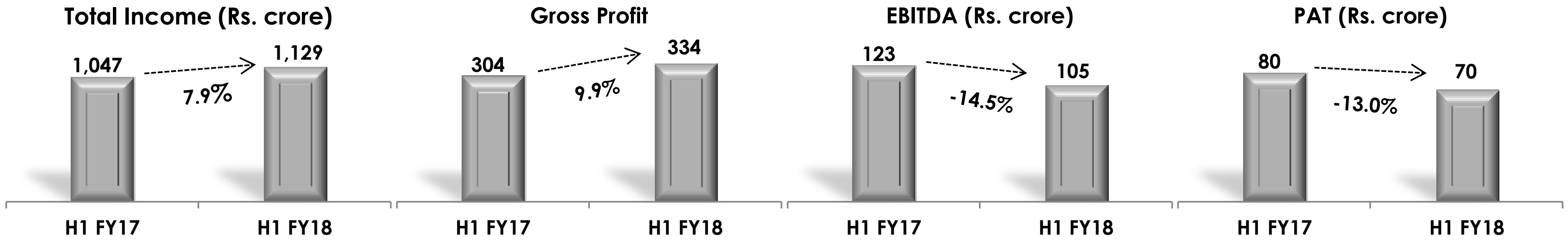
PAT (Rs. crore)



Key ratios (%)	Q2 FY18	Q2 FY17
Gross Margin	32.2%	29.9%
EBITDA Margin	12.3%	11.4%
Net Margin	8.3%	7.7%
Ad Expenditure (incl. promotions)/Total Revenues	5.7%	4.5%
Employee Cost/ Total Operating Income	7.5%	7.1%
Other Expenditure/ Total Operating Income	12.7%	12.2%
Tax rate	27.3%	26.7%
Diluted EPS (Rs.)	1.07	0.87

Financial Highlights (H1 FY18 vs H1 FY17)

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



Key ratios (%)	H1 FY18	H1 FY17
Gross Margin	29.6%	29.0%
EBITDA Margin	9.3%	11.7%
Net Margin	6.2%	7.7%
Ad Expenditure (incl. promotions)/Total Revenues	5.2%	4.8%
Staff Cost/ Total Operating Income	7.5%	6.2%
Other Expenditure/ Total Operating Income	13.2%	11.7%
Tax rate	26.4%	29.4%
Diluted EPS (Rs.)	1.60	1.88

Financial Highlights – Balance Sheet Perspective

Balance Sheet Snapshot (Rs. cr)	30 Sep 2017	30 June 2017	30 Sep 2016
Net worth	677.0	662.1	555.0
Gross debt	4.5	4.9	7.4
Current Investments	101.0	143.4	79.4
Cash and cash equivalents	6.2	6.5	3.6
Net Cash Position (Rs. crore)	102.6	145.2	75.5
Fixed Assets	198.9	192.4	163.0

Key Ratios	30 Sep 2017	30 June 2017	30 Sep 2016
Debtor (days)	52	37	52
Inventory (days)	66	67	69
Creditor (days)	54	45	50
Working Capital Turnover (days)	64	59	71
RoE* (%)	27.5%	14.0%	26.8%
RoCE* (%)	36.4%	16.8%	33.5%

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

Calculations are based on a **quarterly annualized basis*

Segment-wise Breakup of Revenues – Q2 FY18 vs Q2 FY17

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

Category	Q2 FY2018 (Rs. cr.)	Contribution (%)	Q2 FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Electronics	164.6	29.4%	135.9	28.0%	21.1%
Electricals	233.4	41.7%	213.6	44.0%	9.3%
Consumer Durables	161.9	28.9%	136.3	28.1%	18.8%
Grand Total	**559.9**	**100.0%**	**485.8**	**100.0%**	15.3%

Products	Q2 FY2018 (Rs. cr.)	Contribution (%)	Q2 FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	98.4	17.6%	80.5	16.6%	22.2%
UPS (Digital + Standalone)	66.2	11.8%	54.8	11.3%	20.7%
Pumps	56.1	10.0%	48.6	10.0%	15.4%
Cables & Wires (PVC + LT)	164.3	29.3%	155.6	32.0%	5.6%
Water Heaters (Electric + Solar)	98.6	17.6%	85.8	17.7%	14.9%
Fans	38.6	6.9%	32.7	6.7%	18.1%
Kitchen Appliances (Cooktops + Mixers)	24.8	4.4%	18.1	3.7%	36.9%
Switchgears	13.0	2.3%	9.6	2.0%	36.2%
GRAND TOTAL	**559.9**	**100.0%**	**485.7**	**100%**	**15.3%**

Electronics – Stabilizers, UPS, Solar Inverter
Electricals – Cables& Wires, Pumps, Switchgears
Consumer Durables – Fans, Water Heaters, Kitchen Appliances

Segment-wise Breakup of Revenues – H1 FY18 vs H1 FY17

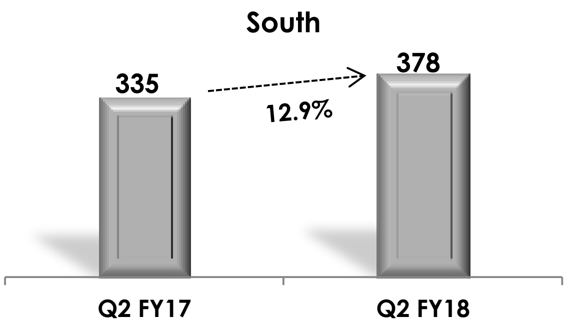
Note: V-Guard adopted Ind-AS framework starting Q1 FY18. Comparable prior period numbers have been restated in compliance with Ind-AS.

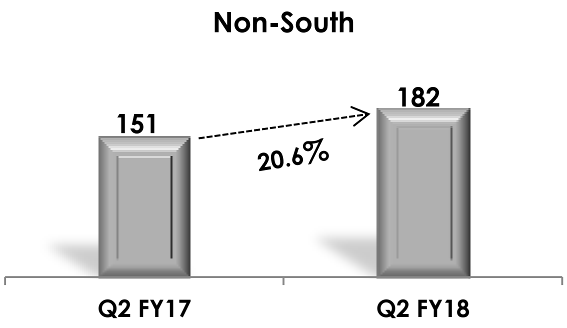
Category	H1 FY2018 (Rs. cr.)	Contribution (%)	H1 FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Electronics	391.3	34.7%	354.2	33.8%	10.5%
Electricals	470.0	41.6%	441.8	42.2%	6.4%
Consumer Durables	267.7	23.7%	250.6	23.9%	6.8%
Grand Total	**1,129.0**	**100.0%**	**1,046.6**	**100.0%**	7.9%

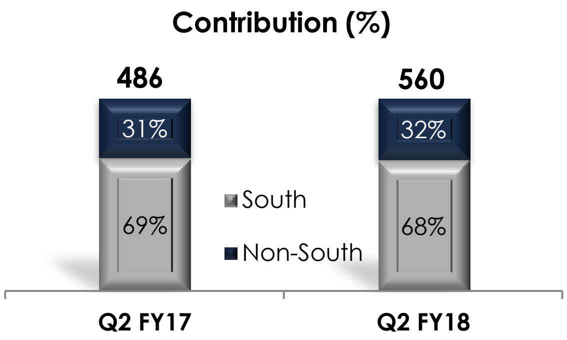
Products	H1 FY2018 (Rs. cr.)	Contribution (%)	H1 FY2017 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	239.7	21.2%	223.8	21.4%	7.1%
UPS (Digital + Standalone)	151.7	13.4%	130.4	12.5%	16.3%
Pumps	125.1	11.1%	114.6	11.0%	9.1%
Cables & Wires (PVC + LT)	322.1	28.5%	308.2	29.5%	4.5%
Water Heaters (Electric + Solar)	141.9	12.6%	132.8	12.7%	6.8%
Fans	93.7	8.3%	91.3	8.7%	2.7%
Kitchen Appliances (Cooktops + Mixers)	32.1	2.8%	26.6	2.5%	20.8%
Switchgears	22.8	2.0%	19.0	1.8%	20.0%
GRAND TOTAL	**1,129.0**	**100.0%**	**1,046.6**	**100%**	**7.9%**

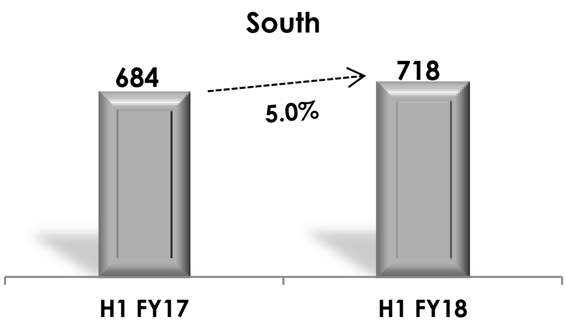
Electronics – Stabilizers, UPS, Solar Inverter
Electricals – Cables& Wires, Pumps, Switchgears
Consumer Durables – Fans, Water Heaters, Kitchen Appliances

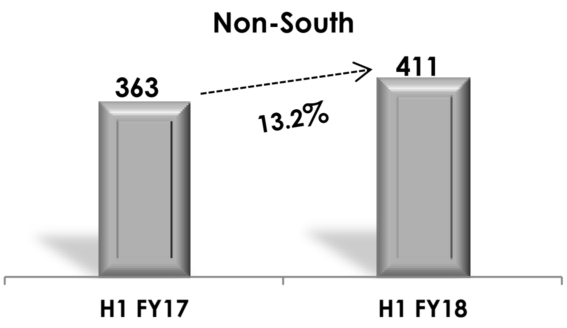
Geographical Breakup of Revenues

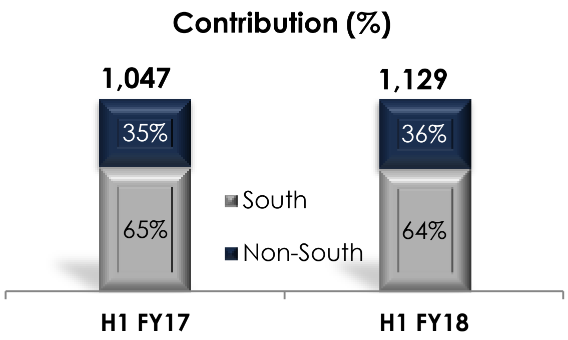












Business Outlook

- 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. 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

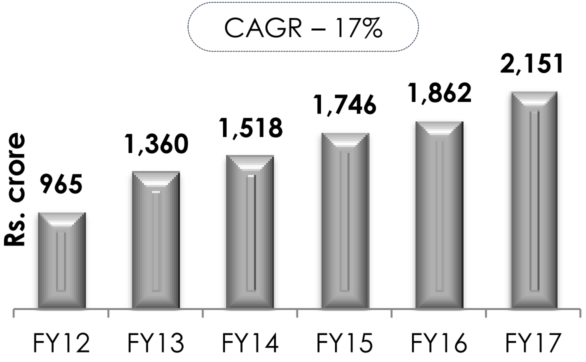
Product	No. of Units	Location
Own Manufacturing Facilities		
PVC Wiring Cables	2	Coimbatore, Kashipur
LT Cables	1	Coimbatore
Pumps & Motors	1	Coimbatore
Fans	1	Himachal Pradesh
Water Heater	2	Himachal Pradesh, Sikkim
Solar Water Heaters	1	Perundhurai
Stabilizers	2	Sikkim
Outsourced production facilities		
Stabilizers	63	Across India
Pump	20	“
Fan	6	“
UPS	12	“
Elec. Water Heater	7	“

Outsourcing Objectives

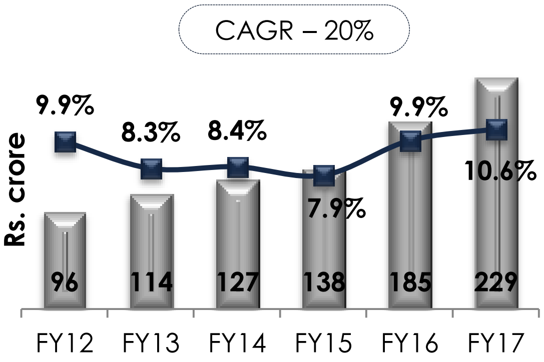
- Asset light model outsourcing ~60% products
- Complete control over supply chain ecosystem
- R&D support to vendors’ technical teams
- Quality assurance official posted at vendors’ production units to ensure maintenance of quality
- Owns all its designs and moulds
- Helps procure raw material for the 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)

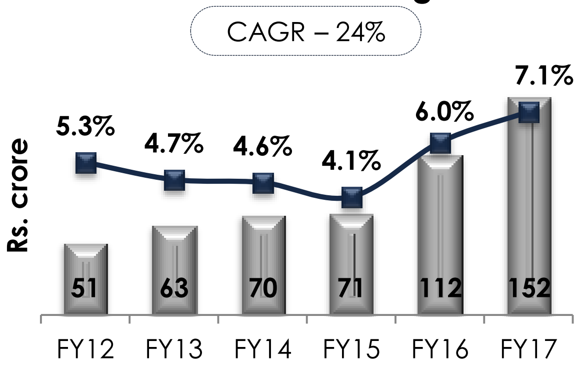
Revenue

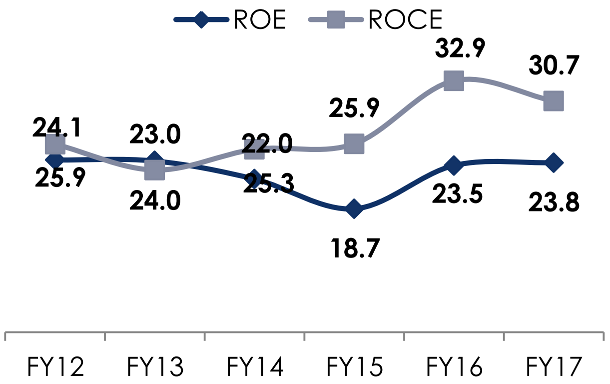


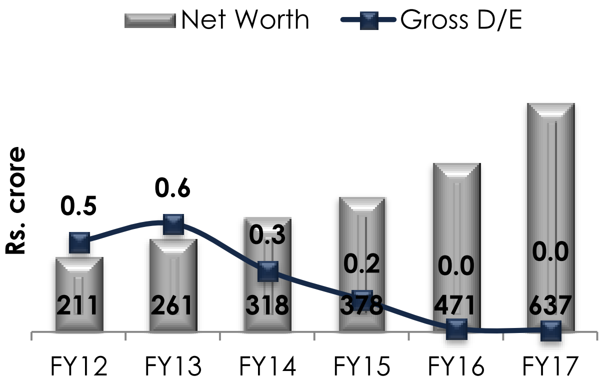
EBITDA and EBITDA Margins



PAT and PAT Margins

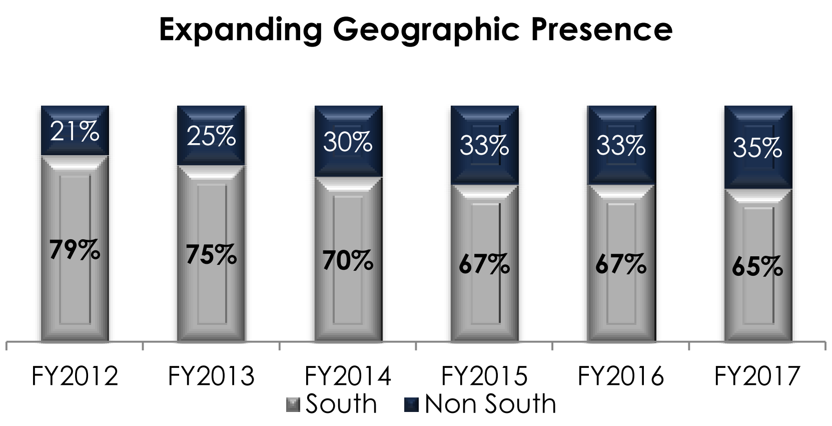


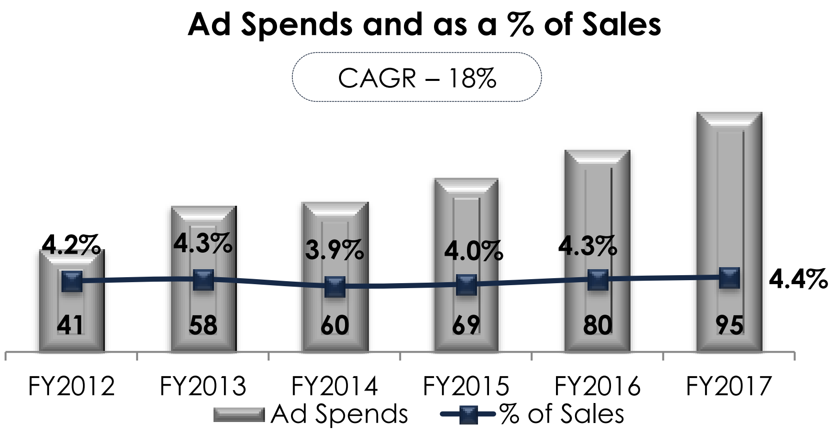


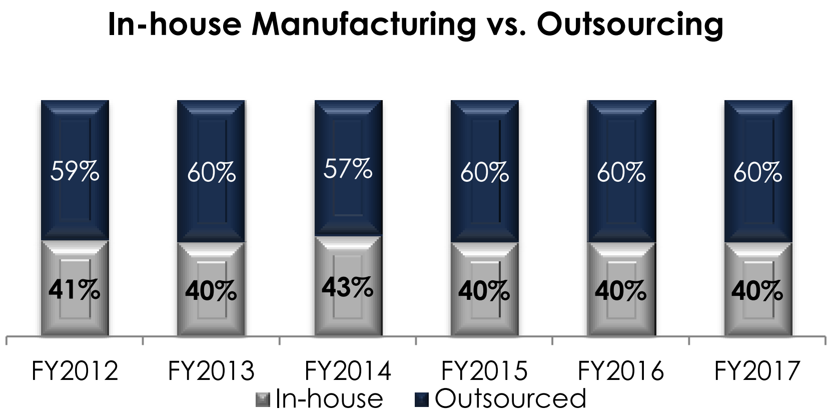


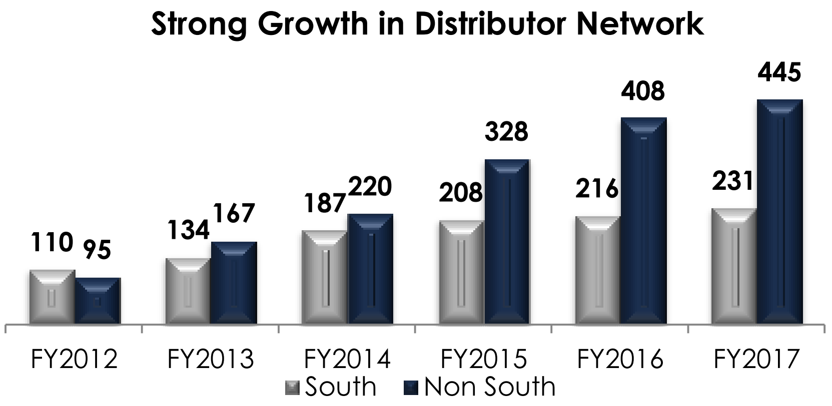
Note: *Numbers are in IGAAP.*

Operational Highlights (FY12-17)







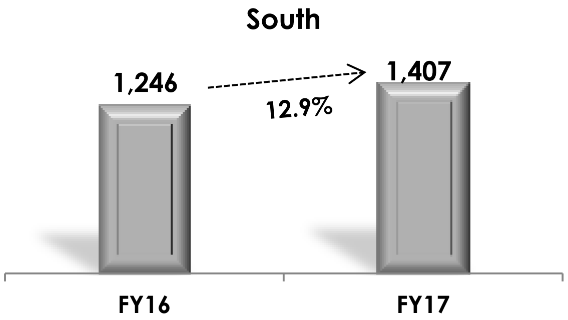


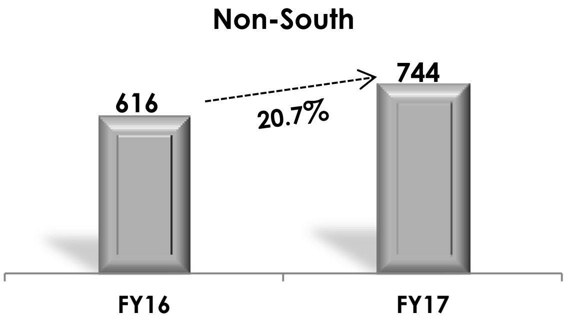
Segment-wise Breakup of Revenues – FY17 vs FY16

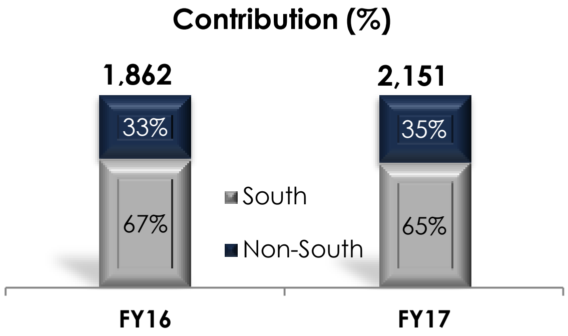
Products	FY2017 (Rs. cr.)	Contribution (%)	FY2016 (Rs. cr.)	Contribution (%)	YoY growth (%)
Stabilizers	436.2	20.3%	369.1	19.8%	18.2%
UPS (Digital + Standalone)	235.1	10.9%	193.6	10.4%	21.4%
Pumps	268.5	12.5%	210.0	11.3%	27.9%
Cables & Wires (PVC + LT)	633.5	29.5%	588.6	31.6%	7.6%
Water Heaters (Electric + 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			
 MOTOR PUMPS	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
 WATER HEATERS	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
 FANS	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 Kochouseph Chittilapilly to manufacture and market Voltage stabilizers. The Company has since then established a strong brand name and aggressively diversified to become a multi-product Company catering to the Light Electricals sector manufacturing Voltage stabilizers, Invertors & Digital UPS systems, Pumps, House wiring/LT cables, Electric water heaters, Fans, Solar water heaters and has also recently forayed into Induction cooktops, 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.

For further information, please contact:

Sudarshan Kasturi (Senior VP & Chief Financial Officer)

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