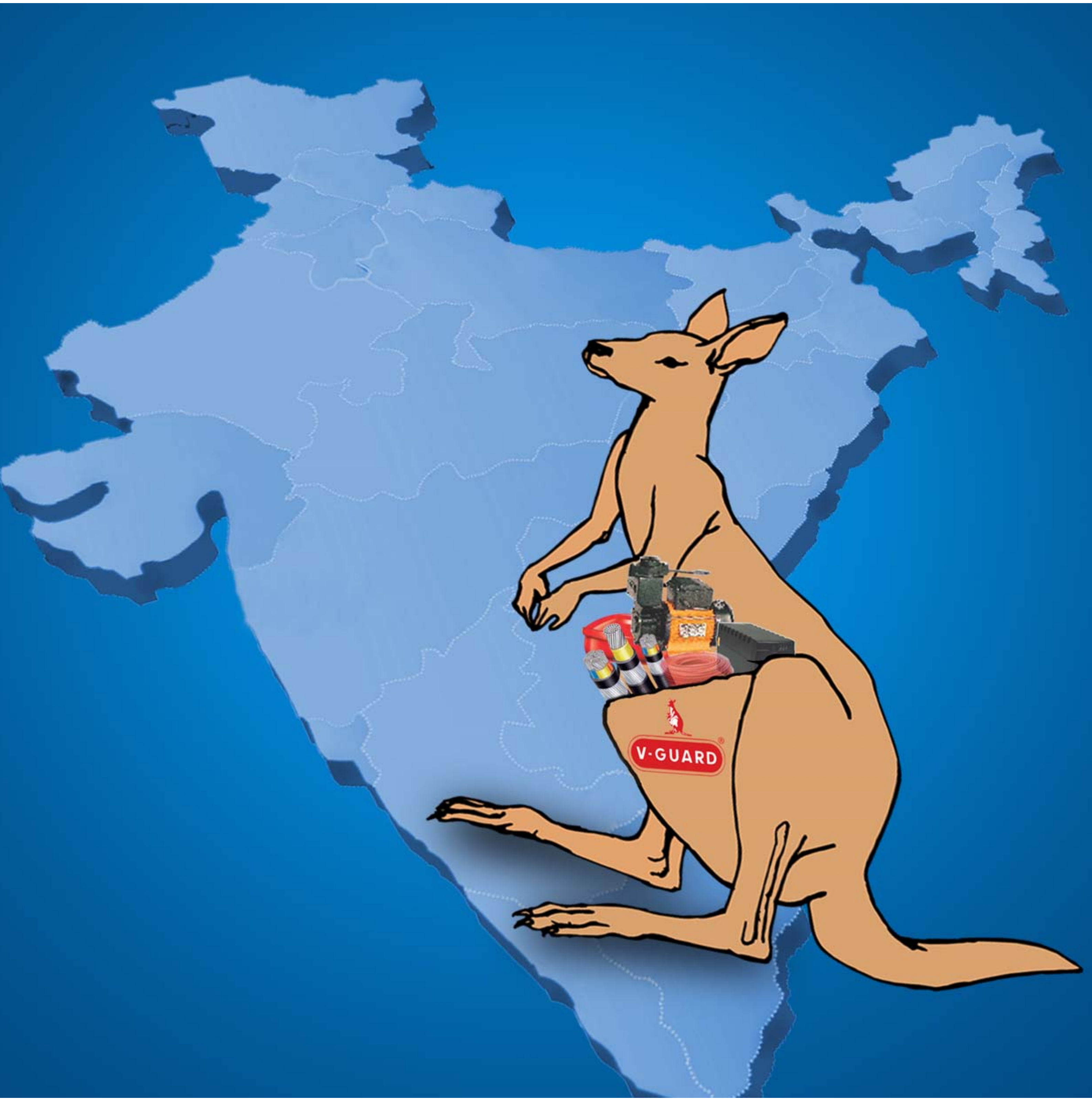
Initiating Coverage | 8 April 2013

Sector: Electrical Goods

V-Guard Industries



Set for quantum jump

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V-Guard Industries: Set for quantum jump

Page No.

V-Guard Industries

BSE SENSEX	S&P CNX
18,865	5,704

Bloomberg	VGRD IN
Equity Shares (m)	29.8
M.Cap. (INR b)/(USD b)	12.9/0.2
52-Week Range (INR)	591/180
1,6,12 Rel. Perf. (%)	-4/16/121

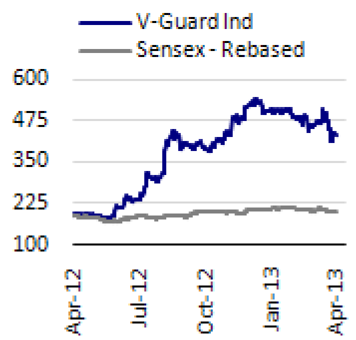
Financial summary (INR b)

Y/E March	2013E	2014E	2015E
Sales	13.7	17.5	22.1
EBITDA	1.3	1.6	2.0
NP	0.7	1.0	1.2
EPS (INR)	25.0	32.5	41.4
EPS Gr. (%)	47.0	29.8	27.3
BV/Sh. (INR)	89.2	113.6	144.5
RoE (%)	31.3	32.0	32.1
RoCE (%)	32.4	34.6	38.9
Valuations			
P/E (x)	17.5	13.5	10.6
P/BV (x)	4.9	3.9	3.0
EV/EBITDA (x)	11.4	8.9	6.9
Div. Yield (%)	1.3	1.6	2.1

Shareholding pattern %

As on	Dec-12	Sep-12	Dec-11
Promoter	65.2	65.2	67.3
Dom. Inst	3.6	3.7	2.4
Foreign	13.1	11.5	8.0
Others	18.2	19.6	22.2

Stock performance (1 year)



CMP: INR438 | **TP: INR621** | **Buy**

Set for quantum jump

Strong brand, product portfolio, pan India presence aid market share gain

Established in 1977, V-Guard Industries is a dominant player in south India in the light electrical industry. Beginning with its flagship product, voltage stabilizers (in which it is the market leader), the company has, over last 10 years, expanded its product profile to include PVC insulated cables, LT power cables, Fans, Geysers, Solar water heaters, Pumps, UPS and Inverters. The company, which went public in 2008 and has seen revenue CAGR of 35% and a PAT CAGR of 33% in the past five years.

- **Rapid expansion in non South India market to improve revenue contribution from 22% of sales in FY12 to 40% over next few years and reduce concentration on South markets.**
- **Target of INR1b ad spends by FY16E to provide significant pan India brand visibility across product segments.**
- **Strong network of 230 exclusive distributors, 3,000 plus channel partners and more than 20,000 retailers; channel partners addition run rate at 725-750 per annum.**
- **Focus to increase revenue per distributor in non South India markets from INR20-25m to INR50-60m over next 2-3 years to drive growth and operating leverage.**
- **Asset light business model as 60% of revenue is contributed through outsourcing model, thus helping V-Guard to focus on branding and distribution network.**
- **Over FY13-15E, it is likely to post a revenue growth of ~27.1% and net profit growth of ~28.6%. V-Guard trades at a PE of 13.5x/10.6x FY14E/15E EPS. We value the stock at 15x FY15E EPS and arrive at a target price of INR621, with a Buy rating.**

Diversified model; INR1b ad spends to project pan India visibility

Over the past 10 years, V-Guard expanded its product portfolio with cables, electric and solar water heaters, digital UPS, fans, switchgears, pumps etc which are scalable in nature, compared to being a stabilizer company in early 1990s. It has a vital brand recall in South India as it spends ~4% of its sales on advertisements. However, to become a pan India player, it spends ~10% of non South India sales on advertisements to create a strong brand recall and pricing power in those markets. In our view, the ad spends of INR1b by FY16E will lead to higher growth in the recently-penetrated non South India markets and create a pull factor for its products, thereby leading to sustainable and higher growth, going forward.

Strong distribution network in place to boost penetration

V-Guard has a strong distribution network of 230 exclusive distributors (120 in non South India and 110 in South), 200 plus service centers, 3,000 channel partners, 24 branches and more than 20,000 retailers. It rapidly expanded the non South distribution network from 34 exclusive distributors and 16 channel partners in FY08 to 95 exclusive distributors and 1,365 channel partners in FY12. Our channel checks suggest that company gives 4-4.5% distributor margin in South India, while margins in non South stands ~5.5%, which is likely to decline to 4-4.5% over next 2-3 years, thereby improving margins. We believe that with a pan India distribution in place, V-Guard will increase throughput from its non South stores by adding retailers under existing distributors, which should drive growth.

Non South India market - a long term growth story

Company adopted the strategy to introduce newer products like fans, digital UPS, PVC cables, induction cooktops, switchgears in the South India market, while introducing traditional products like stabilizers, cables, pumps, solar water heaters etc in non South markets. Once the newer products gain significant traction in South market, company would introduce it in non South markets. V-Guard's sales per distributor in South India stands at INR70-80m per annum, compared to INR20-25m for non South. Management expects sales per distributor in non South to increase to INR50-60m over next 2-3 years by expanding the number of retailers below distributors, increased advertisement spends, introducing newer products, thereby driving growth. Management expects to improve the revenue contribution from non South from 22% of sales in FY12 to 40% over next few years.

Asset light business model leading to higher return ratios

V-Guard follows a unique business model of outsourcing 60% of its revenue contribution for products like stabilizers through SSIs units (exemption from excise duty) and UPS, digital UPS, pumps, fans, electric water heaters, induction cooktops and switchgears through dedicated OEMs in India and China, and 40% of revenue through in-house manufacturing for products like PVC cables, LT cables and solar water heaters to maintain a uniform quality. This model helps to reduce its capex requirement and working capital, generate higher return ratios and to focus on brand building in newer areas, thereby leading to higher growth, going forward.

Valuation and view

We estimate V-Guard's revenue would increase by 27.1% and net profit by 28.6% over FY12-15E. Given the strong product portfolio complimented by a sturdy brand and distribution network and increased focused on growing in non South market should help it gain market share and become a formidable pan India player over the next few years. Given the asset light business model and improvement in working capital going forward, we believe its RoCE and RoE will expand significantly from 27.3% and 26.6% in FY12 to 38.9% and 32.1% in FY15E, thereby making a strong case for rerating. V-Guard trades at a PE of 13.5x/10.6x FY14E/15E EPS. We value the stock at 15x FY15E EPS and arrive at a target price of INR621, with a **Buy** rating.

Story in charts Set for quantum jump

❶ V-Guard spent ~4% of sales on advertisement (significantly higher than competition), thus being able to build a strong brand recall and gain market share.

❷ Improvement in revenue per distributor in non south to drive growth and margins higher.

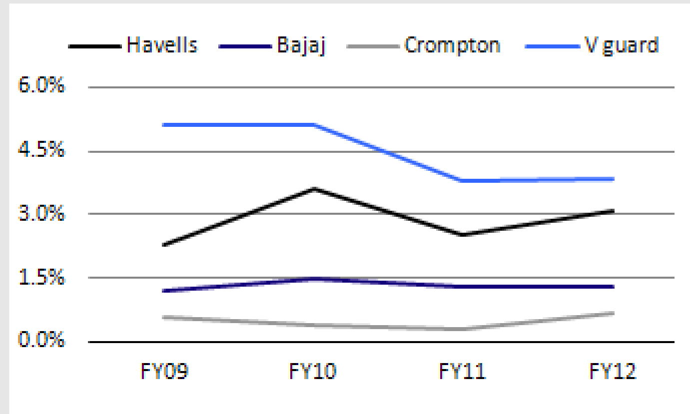
❸ Average dealer addition run rate of ~725 dealers over last 4 years leading to strong distribution network.

❹ Outsourcing model helps to focus on brand building, reduce capex and working capital requirement, leading to higher return ratios.

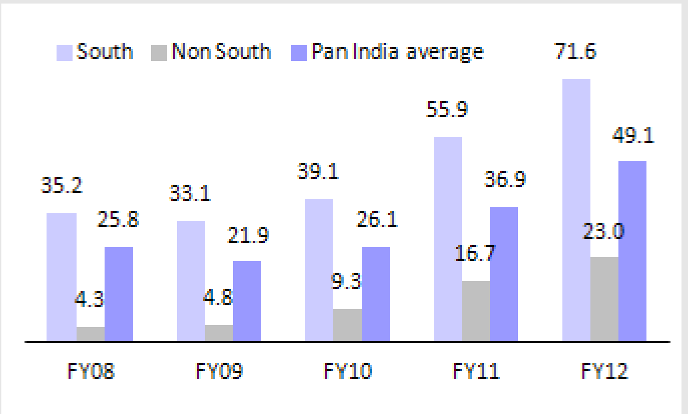
❺ We expect 27.1% sales CAGR over FY13-15E, primarily driven by higher growth from non South markets, increased capacity and launch of newer products.

❻ We expect 28.6% PAT CAGR over FY13-15E driven by 27.1% top line CAGR and stable margins.

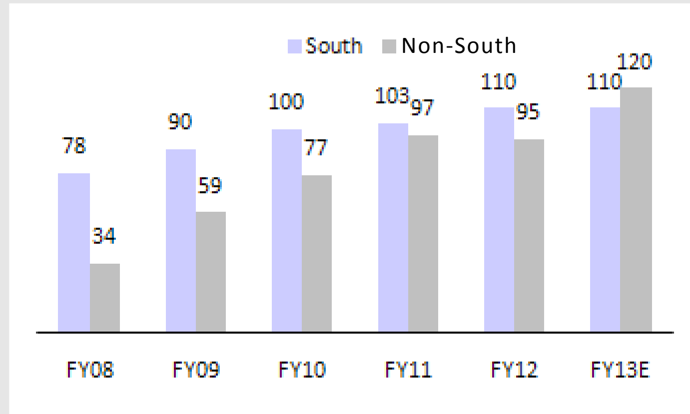
❶ V-Guard's ad spends highest among peers



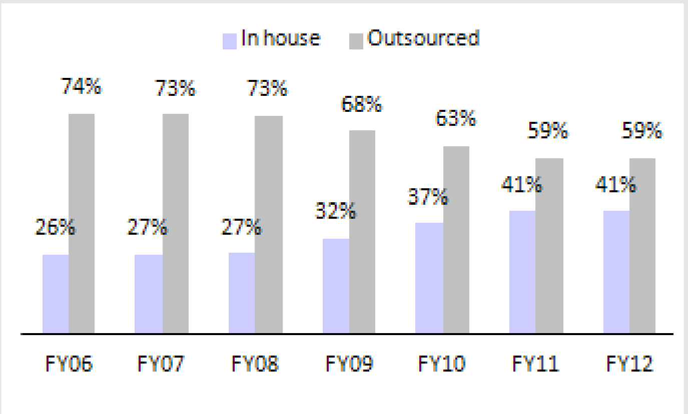
❷ South v/s non South sales per distributor (In m)



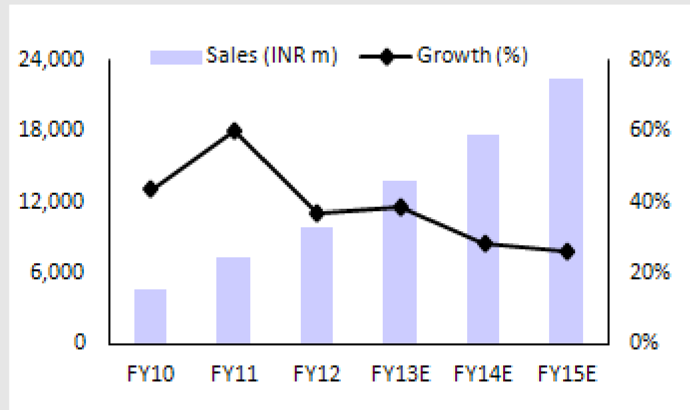
❸ Distributor additions



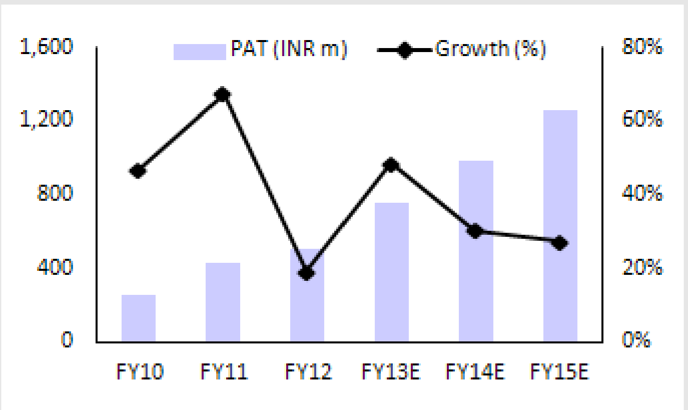
❹ V-Guard adopts asset light business model



❺ Sales and growth trend



❻ PAT and growth trend

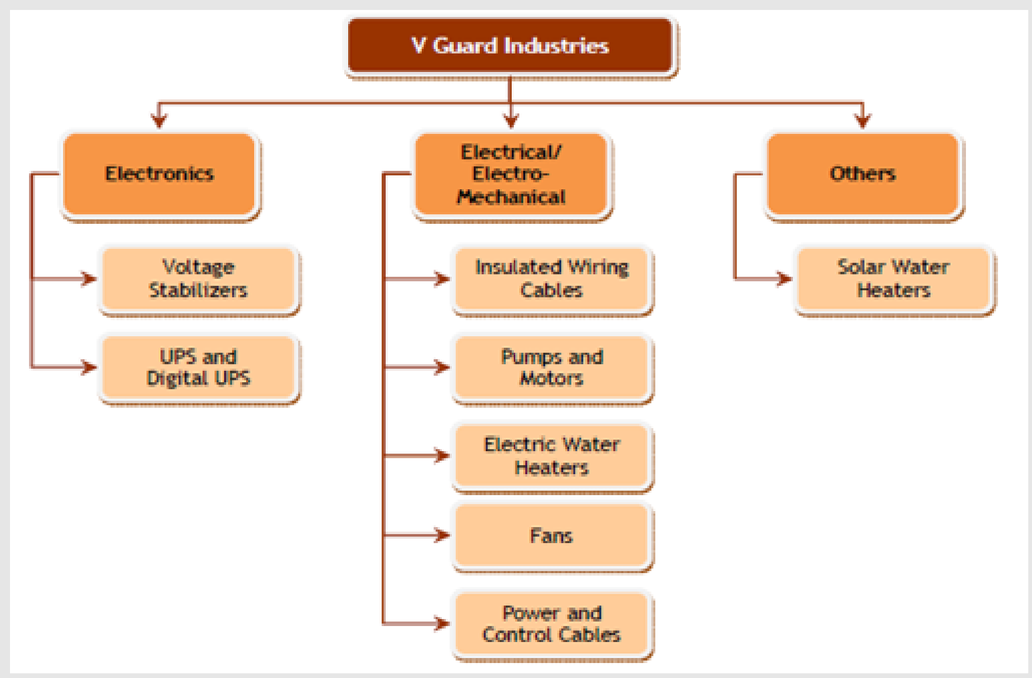


Source: Company, MOSL

Company description

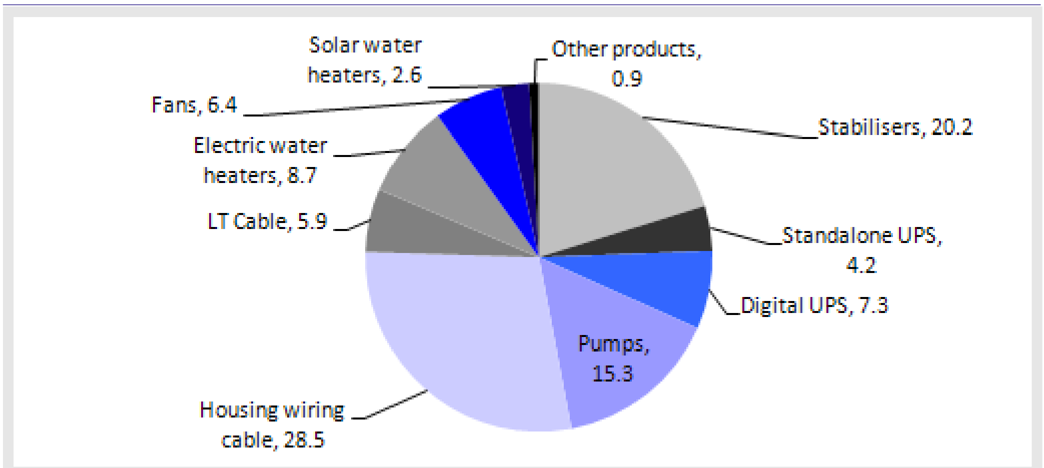
V-Guard Industries Ltd (V-Guard) was incorporated as a partnership firm, Premier Electronics, in Kochi, Kerala by Mr Kochouseph Chittilapilly in 1977 and acquired its current name in February 1996. It began as a small manufacturing unit for voltage stabilizers, capital of INR100,000 and just two employees. Post the IPO in 2008, it set up a manufacturing unit for cables in Kashipur, Uttarakhand and is in the process of doubling capacity in Kashipur from 3.6m coils to 7.2m by end-FY14. Company also ventured into the leisure industry in 2000 and established Veega Land, an amusement park.

Company Structure



Source: Company, MOSL

Revenue breakup - FY12



Source: Company, MOSL

History

1980	Launched A/C stabilisers
1980	Launched servo controlled stabilisers
1990	Launched Quartz clock
1996	V-Guard Industries was incorporated as a Public Limited company which took over the 19 year old proprietorship business of our promoter Mr. Kochouseph Chittilappilly. Launced Electric Water Heaters.
1998	Launched Ups (Online & Offline) Received Industry Excellence Award for Medium Scale Industries by the Institution of Engineering (India), Cochin
1999	Launched Digital Stabilizers Cable Manufacturing unit was inaugurated at Coimbatore
2001	Launched Compressor Pumps
2002	Launched Solar water Heaters
2006	Launched V-Guard Fans
2007	Stabilizers Turnover Crossed 1 million mark in numbers. Company was converted into a public limited company.
2008	Launched inverters, Digital UPS and LT Cables
2009	Opened new LT cable factory at coimbatore and started wire and cable factory at kashipur
2012	Turnover crosses INR 10bn mark
2013	Launched induction cooktops and switchgears

Source: Company, MOSL

Product description

Product	Manufacturing facility	Production Model	Industry growth	Key competitors
Stabilisers	Tie up with SSIs/ Self helped group	100% Outsourced	10-15%	Capri, Premier, Blue bird
PVC wiring cable	Coimbatore, Kashipur	100% In House	10-12%	Polycab, finolex,Havells
Standalone UPS	Tie up with SSIs/ Self helped group	100% Outsourced	10-12%	Frontech, Numeric, Microtech, Wipro
Digital UPS	Tie up with SSIs/ Self helped group	100% Outsourced	25-30%	Luminious, Microtech, Sukam
Pumps	Coimbatore and SSIs	90% Outsourced	8-10%	Crompton, Texmo, CRI
Fans	Kala Amb, Himachal Pradesh and SSIs	90% Outsourced	12-15%	Crompton, Usha, Havells
LT Cable	Coimbatore	100% In House	10-12%	Polycab, KEI, Havells
Electric water heaters	Kala Amb, Himachal Pradesh and SSIs	90% Outsourced	12-15%	Racold, Bajaj, Venus, Havells
Solar water heaters	Coimbatore and perunthurai	100% In House	7-8%	Emmvee, Tata BP

Source: Company, MOSL

Industry dynamics

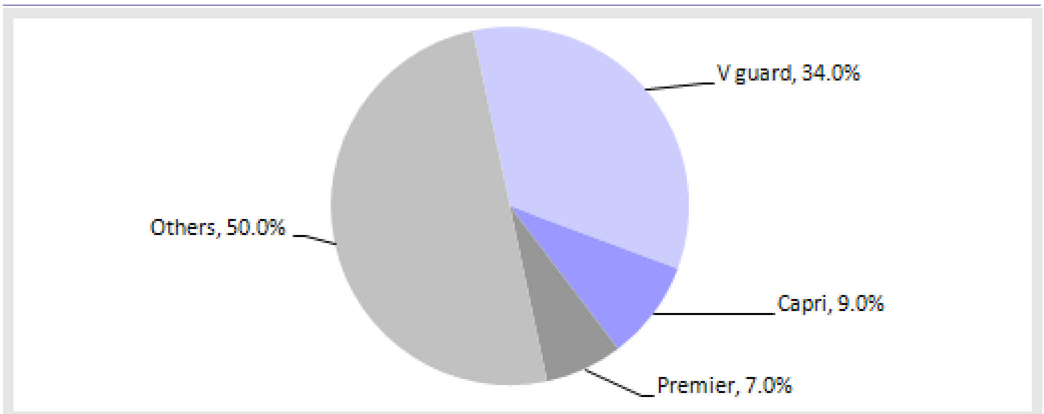
#1 Stabilizers

- Voltage stabilizer (a device used to provide constant level of electricity to electronic appliances) industry is fragmented, with more than 250 manufacturers spread across India.
- Stabilizers market in India is pegged at INR15b, of which 60% is dominated by unorganized market and 40% by organized players.

Market leader with 34% share of the organized market

- V-Guard, which enjoys 34% market share of the organized market followed by Capri at 9% and Premier at 7% respectively and the balance 50% by other small organized players.
- The difference between V-Guard and the second leader is ~4x and between V-Guard and third leader is ~5x, thus leading to higher pricing power. Thus, V-Guard's pricing is also at 7-10% premium to competition, leading to higher margins.
- Of the overall market size of INR15b, non South India comprises of 60%, while South India comprises of 40%. V-Guard has 13.3% market share of the overall stabilizer market, with 60% market share in Kerala and more than 50% market share in Tamil Nadu and Andhra Pradesh.
- The stabilizer market of INR15b is growing at 12-13%, with South at 10% and non South at 18-20%. The industry is in an uptrading phase, with consumers moving from unorganized to organized segment, thereby benefiting V-Guard.
- Around 60% of new air conditioners, 30% of refrigerators, ~30% of televisions (including LCD and LED) and 20% of washing machines are sold with stabilizers.

V-Guard dominates the organized stabilizer market



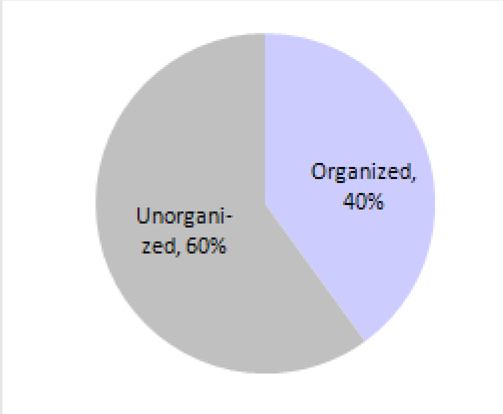
Source: Company, MOSL

Inbuild stabilizers not a threat to long term growth story

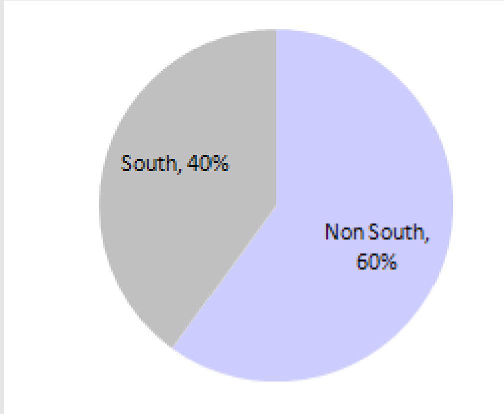
Voltage stabilizers do not affect the product's performance as in case of inbuild stabilizers

In 2009, Samsung and LG introduced inbuild stabilizers with a view to add value to consumers. However, the demerit of an inbuild stabilizer is that if the voltage falls below a desired level, then it cuts off the power and affects the performance of the product till normal voltage is restored. Conversely in case of voltage stabilizers if the voltage drops below a certain level it immediately brings back to normal level without affecting the performance of the product. Our channel checks suggest that many organized players like V-Guard, Capri etc were affected in the short term due to introduction of inbuild stabilizers. But due to latter's demerit, demand for voltage stabilizers returned. We note that all white goods manufacturer's manual suggests that consumers use voltage stabilizers.

Market breakup - organized and unorganized



Market breakup - North and South



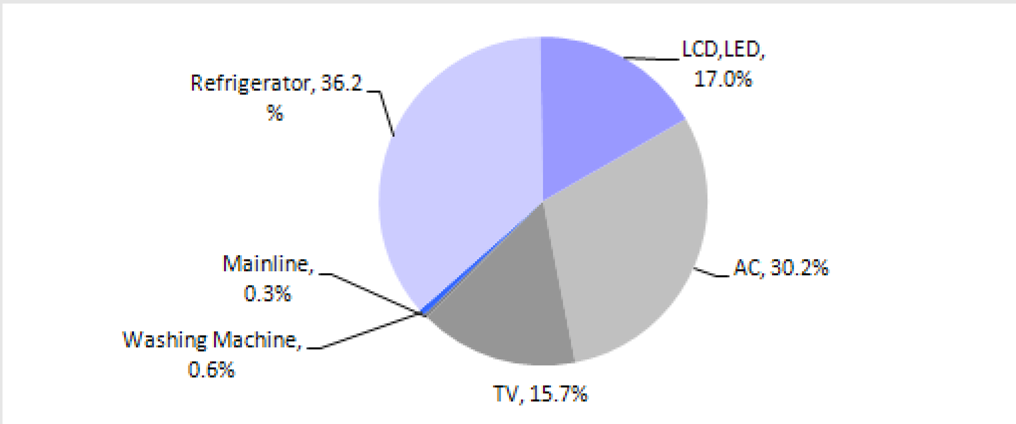
Source: Company, MOSL

After sales service - the mantra for customer pull

V-Guard's instant after sales service, a key reason for customer pull

Our channel checks also suggest that a key reason for the success of large organized players has been after sales service. Each V-Guard distributor has a service center and ensures instant service in 24-48 hours in case of any defect in stabilizers, thereby generating customer satisfaction. Competitors failed to provide this service, which led to a decline in their products' demand.

V-Guard stabilizers usage-wise sales breakup

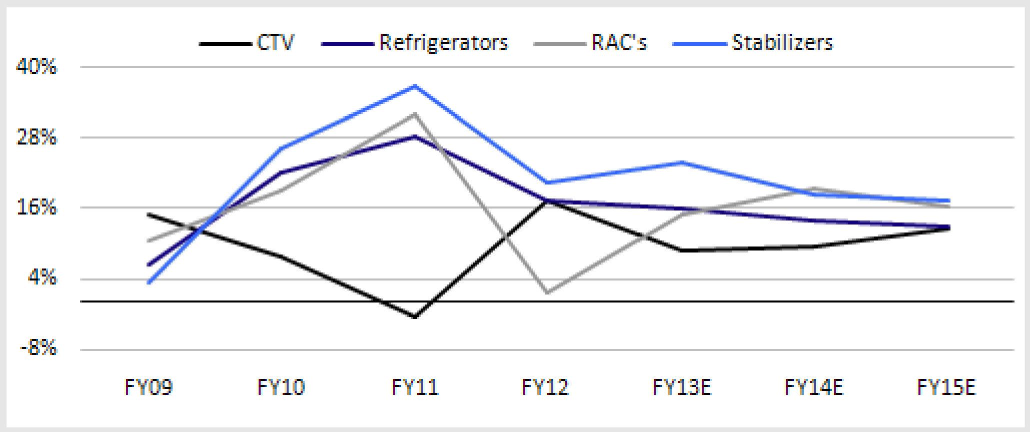


Source: Company, MOSL

White goods growth influences stabilizer growth

Stabilizer sales are directly co-related with white goods sales. Our channel checks suggest that a steep increase in the selling price of white goods affect their demand, thereby affecting a stabilizer company like V-Guard's sales. Its stabilizer revenue in the past five years posted a CAGR of 17%, driven by 16% CAGR in white goods sales (refrigerators, TVs, air conditioners and washing machines). Crisil expects white goods volume to grow at 14% over FY13E-15E, thereby driving stabilizer growth.

White goods growth v/s stabilizers



Source: Crisil research,Company, MOSL

#2 PVC cables and wires

- Cables are of two types, namely flexible and industrial cables. Flexible cables comprise of PVC cables and wires which are used for household utility, while industrial segment comprises of LT cables, which are used for supply of power from transformers to consumers and HT cables which are used for industrial purposes.
- The Indian cable industry is estimated at INR143b divided between PVC cables and LT cables. Of the INR143b, PVC cables comprises of INR70b, while LT comprises of INR73b.

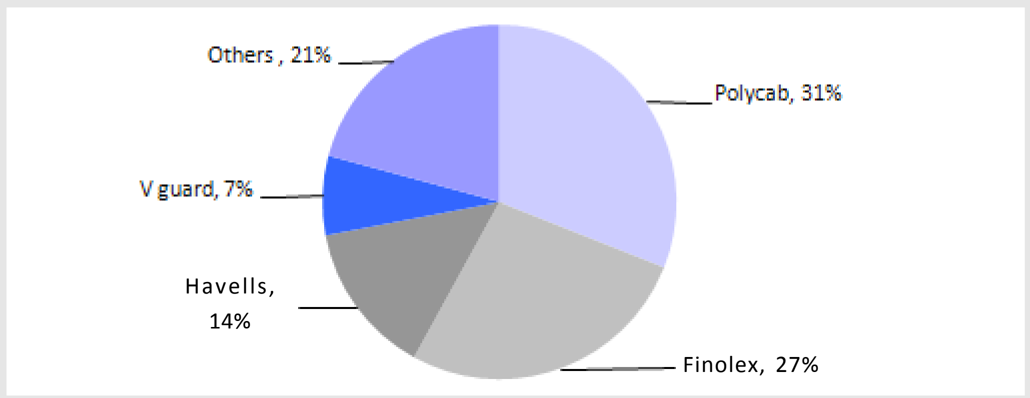
Share of unorganized players shrinking, leading to uptrading in the industry

- Of the INR70b, PVC cable market size is ~40% and is contributed by unorganized market and the balance 60% is dominated by organized players like Polycab, which enjoy 31% share of the organized market followed by Finolex at 27%, Havells by 14%, V-Guard at 7% and balance 21% by small organized players.
- Also, of the INR70b, South India market comprises of INR30b and non South market comprises of INR40b.
- The unorganized market in FY08 was ~60% of the total market, which has now shrunk to 40%, indicating uptrading in the industry. V-Guard is gaining market share from unorganized and organized players like Havells and Finolex.

Tier 2 and Tier 3 to grow at a faster pace

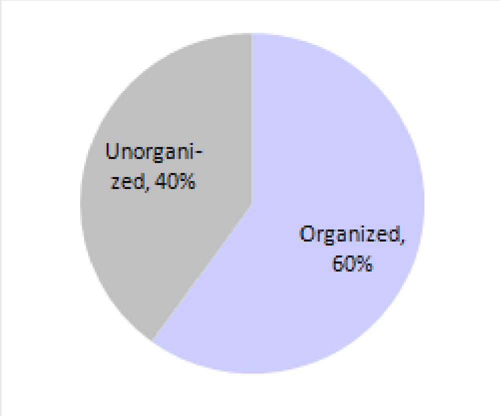
- The cables industry is growing at ~12%, compared to 15% over the last 2-3 years, mainly due to a slowdown in the economy. However, growth within Tier 2 and Tier 3 cities continues to remain strong, which is expected to drive industry's growth, going forward.

V-Guard gaining market share

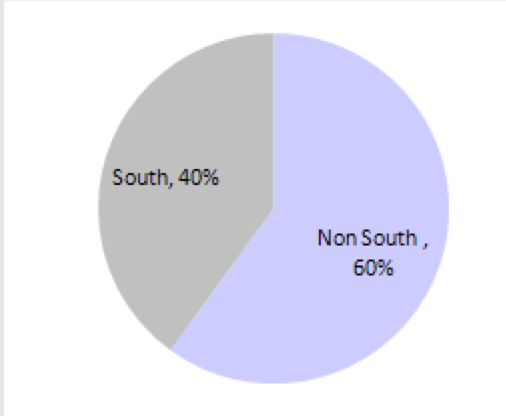


Source: Company, MOSL

Market size breakup - organized v/s unorganized



Market size breakup - North v/s South



Source: Company, MOSL

Aggressive ad spends seen going forward, lead to uptrading in industry

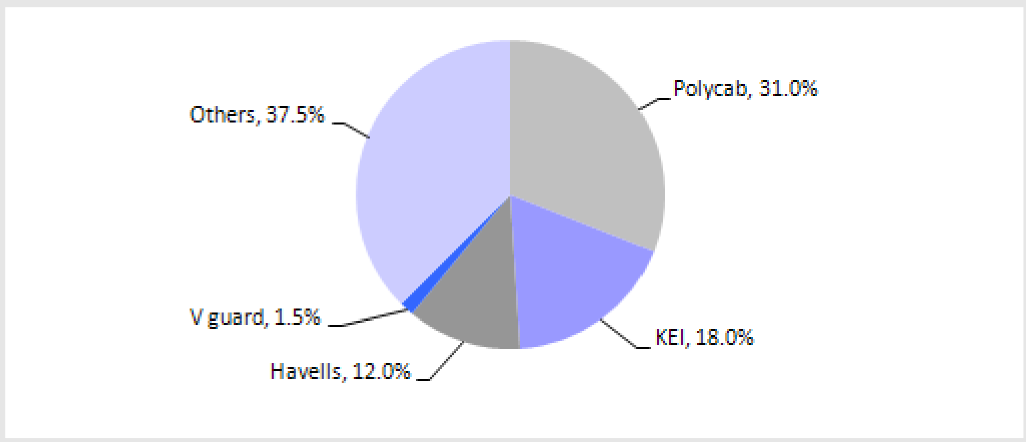
Heavy ad spends to lead to pricing power, going forward

- Our channel checks suggest that Polycab sells its product 4-5% cheaper compared to organized players due to lack of advertisement spends. Polycab enjoys 90% market share in Maharashtra and Gujarat due to lower pricing, while Havells is strong in North and Finolex in South India.
- In FY09, V-Guard's products were priced at par with Havells. However, over the past three years Havells aggressively spent on advertisement, thereby taking a 4-5% price lead compared to V-Guard and 1-2% compared to Finolex.
- With the new capacity coming on stream in Kashipur in September 2013, V-Guard plans to increase the advertisement spends on cables starting March 2013, which should lead to higher pricing power, market share gain and also help suffice the incremental demand, going forward.
- We believe the industry will see a significant increase in ad spends going forward, thus leading to further uptrading.

#3 LT cables

- The total market size of low tension cables (LT cables) stands at INR73b, of which 40% is contributed by unorganized market and the balance 60% is dominated by organized players.
- Polycab enjoys 31% market share of the organized market followed by KEI at 18% and Havells at 12% and V-Guard at 1% and the balance 38% by small players.
- Of the market size of INR73b, South comprises of 40% and non South comprises of 60%. Most of the sales in this segment are B to B in nature.
- V-Guard does not plan to focus on LT cables business due to the B to B nature of deals and also due to fear of higher NPA in this segment. It operates in this segment through distributors with marquee clientele such as L&T, Tata Steel to name a few.

Polycab dominates organized cables market



Source: Company, MOSL

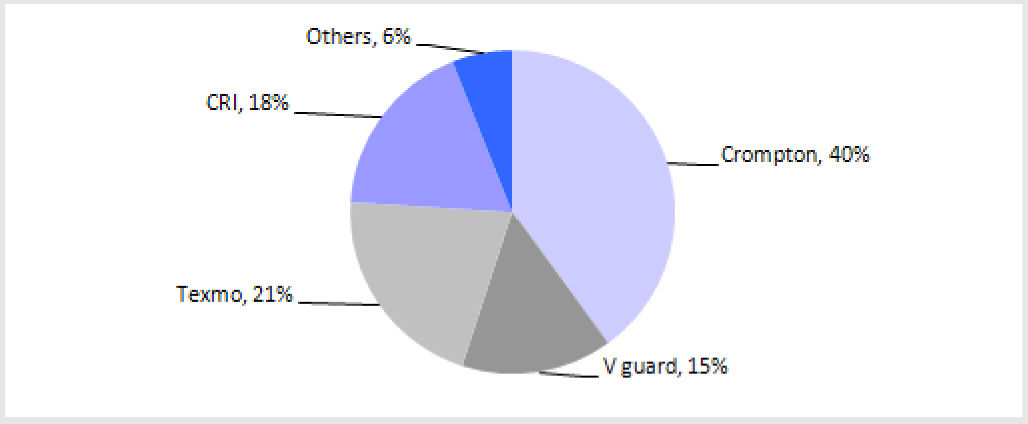
#4 Pumps

- Pumps segment can be divided into two types, namely domestic and agriculture. Domestic segment includes pumps used for household utilities, while agriculture implies usage in farms etc. With surging demand from infrastructure and irrigation sector, the demand for pumps continues to be strong.
- Overall pumps market size stands at INR65b, growing at 5-7%, of which domestic stands at INR20b, while agriculture stands at INR45b.

Industry dominated by Crompton, Texmo and CRI with more than 40 years of experience

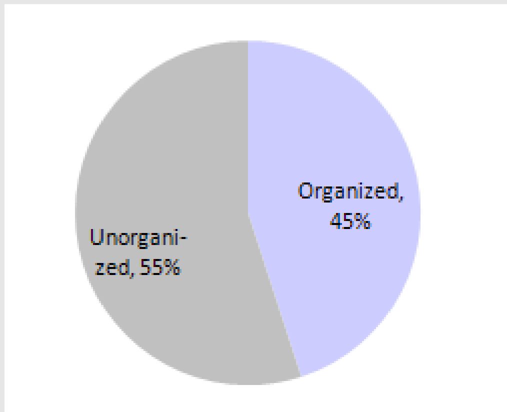
- Within the domestic segment market size of INR20b, 55% is contributed by unorganized and 45% by organized players like Crompton, which enjoy 40% market share, followed by Texmo at 21%, CRI at 18% and V-Guard at 15% and balance 6% by small organized players. Most of the players in the pumps segment are 40-50 years old.
- Of the INR20b market size, 65% of the market is concentrated in Non South, compared to 35% in South India.
- In South India, V-Guard sells at 4-5% premium to peers, compared to Non south where it is a recent entrant and sells at 2-3% discount to peers. However, major unorganized players are in the 0.25-1HP space. Also, distributor margins in this segment stand at 4-5%.
- The pump requirement varies with the changes in water level, quality of water etc and hence a large number of SKUs are required along with deep understanding of geography, which acts as an entry barrier in the business. V-Guard recently ventured into three phase pumps, which are meant for agriculture purposes, but is not present in industrial pumps.
- Our channel checks suggest that majority of the players in the unorganized segment cater to agriculture sector. The availability of cheap or free power and price sensitive nature of the rural market have helped push volumes for unorganized players.

Pumps organized market share breakup

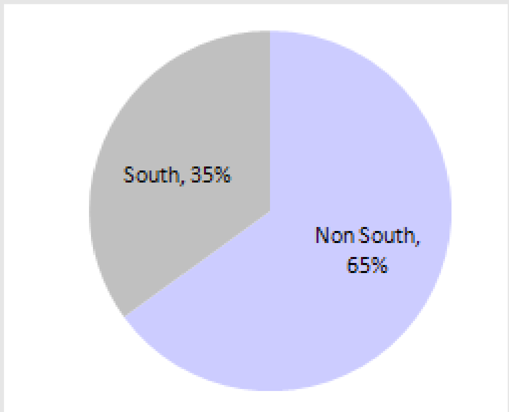


Source: Company, MOSL

Market size breakup - organized v/s unorganized



Market size breakup - North v/s South

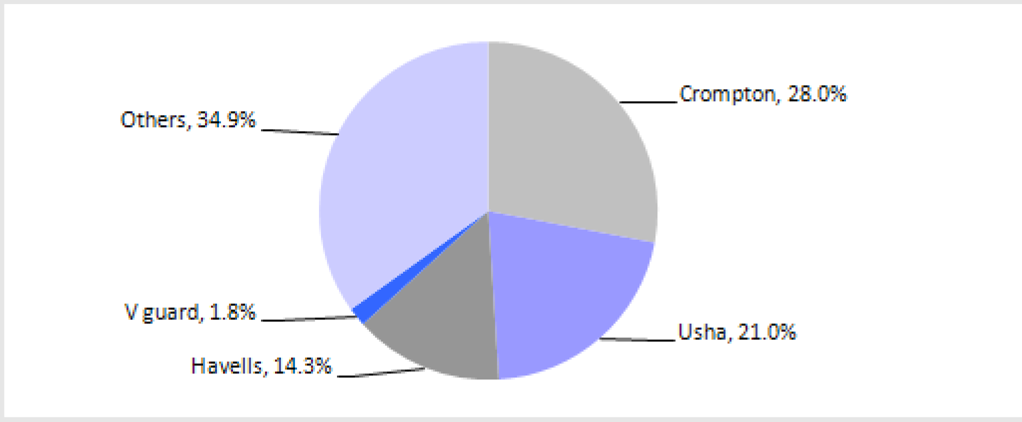


Source: Company, MOSL

#5 Fans

- The overall industry size in fans stands at INR50b, of which ceiling fans contribute ~70% to the fans market, with table, pedestal and wall fans accounting for 30% market.
- Of the overall industry size of INR50b, 30% is comprised of unorganized market and the balance 70% is dominated by organized players like Crompton with 28% market share of the organized market, followed by Usha at 21%, Havells at 14.3% and V-Guard at 1.8% and the balance 34.9% by small organized players.
- Of the overall industry size of INR50b, South India comprises of 40% and non South comprises of 60%.
- Our channel checks indicate that the brand recall for Crompton, Usha etc have created entry barriers for many players to grow in this business.
- Due to stiff competition and rupee depreciation, V-Guard plans to pull out from the fans business in non-profitable markets and plans to focus more on South and East markets , going forward.
- Overall fans market is expected to grow at 15% driven by the sharp growth in housing sector.

Crompton dominates organized fans market



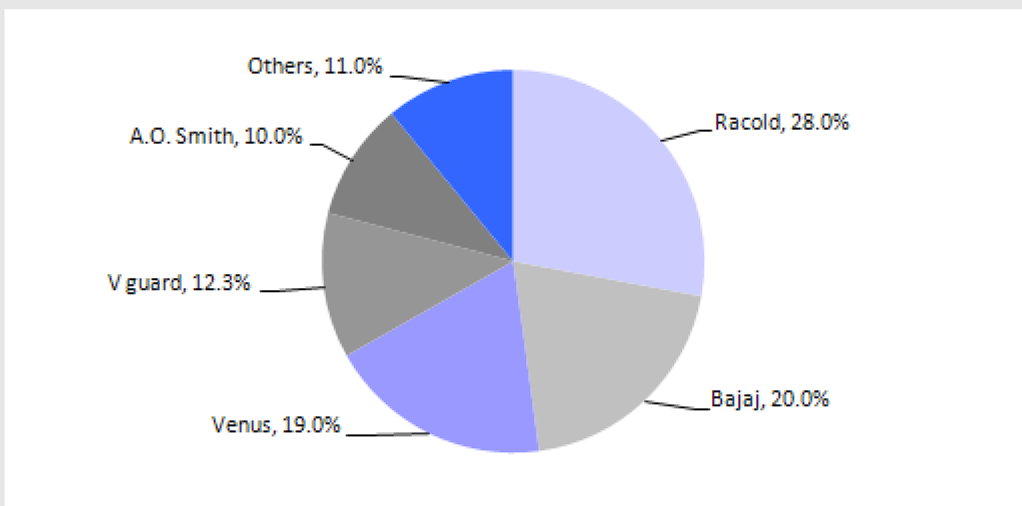
Source: Company, MOSL

#6 Electric water heaters

Recent power tariff hike to increase cost of electric water heaters, going forward

- Electric water heater market size stands at INR12b and is growing at 10-12%, of which 45% comprises of unorganized and balance 55% is dominated by organized players .
- Racold, enjoys 28% market share of the organized market, followed by Bajaj at 20%, Venus at 19%, V-Guard at 12.3%, A.O. Smith at 10% and balance 10.7% by small organized players.
- V-Guard sells its products 5% premium than other organized players and 25-30% more compared to unorganized.
- Of the overall market size of INR12b, 65% contribution comes from non South India (due to the extreme cold during winters in North India) and the balance from South.
- However, the recent sharp increase in power tariffs has increased the cost of usage of electric water heaters significantly, compared to solar water heaters, thereby leading to slower pace of growth in the sector.

Electrical water heaters organized market share breakup



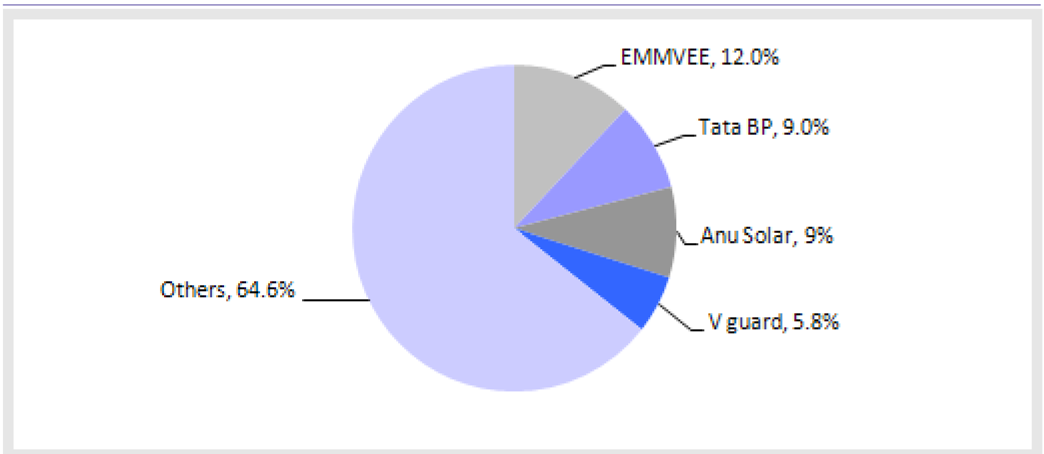
Source: Company, MOSL

#7 Solar water heaters

Government impetus for the sector by providing 30% subsidy to stimulate growth

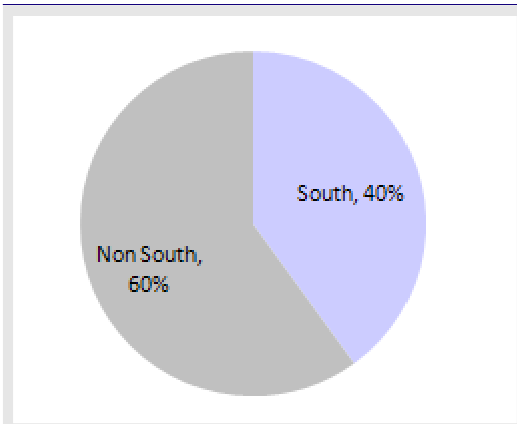
- Solar water heaters were introduced to promote the effective use of environment friendly and energy saving products. They come in 100-5,000 litre capacity, with large heaters being utilized for commercial and industrial purposes and smaller ones for household use.
- Solar water heaters market has evolved over the past 10 years, with the current market size pegged at INR6.5b, of which unorganized market comprises of 35% and organized dominates at 65% with players like Emmvee by 12% market share of organized market, Tata BP by 9%, Anu Solar at 9%, V-Guard at 6% and the balance 64% by small players.
- Of the INR6.5b market, ~60% of the overall market sales come from non South markets and balance from South. Around 70% of the sales in this segment are business to consumers like hotels, educational centers, large villas etc.
- However, with significant capacity addition from 18,000 units to 90,000 units in 3QFY13, V-Guard is eyeing to become the leader in this space over the next 2-3 years.
- Given a low payback period in this segment and government impetus for the sector through the National Solar Mission, market is expected to grow in excess of 20-25% over the next few years. Management expects the solar water heater market size to overtake electric water heater over the next 3-5 years.

Solar water heaters organized market share breakup

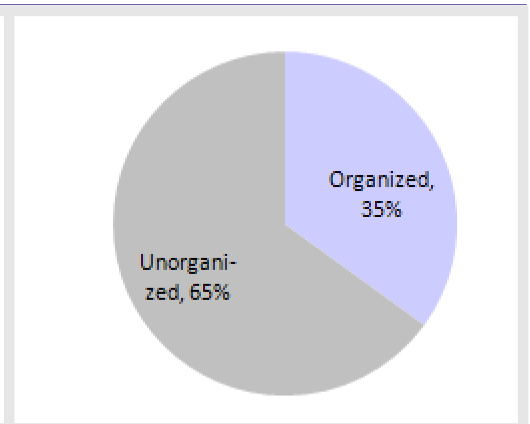


Source: Company, MOSL

Market size breakup - North v/s South



Market size breakup - organized v/s unorganized



Source: Company, MOSL

Solar water heaters likely to overtake electric heaters market

Subsidy of 30% to lead to lower payback period

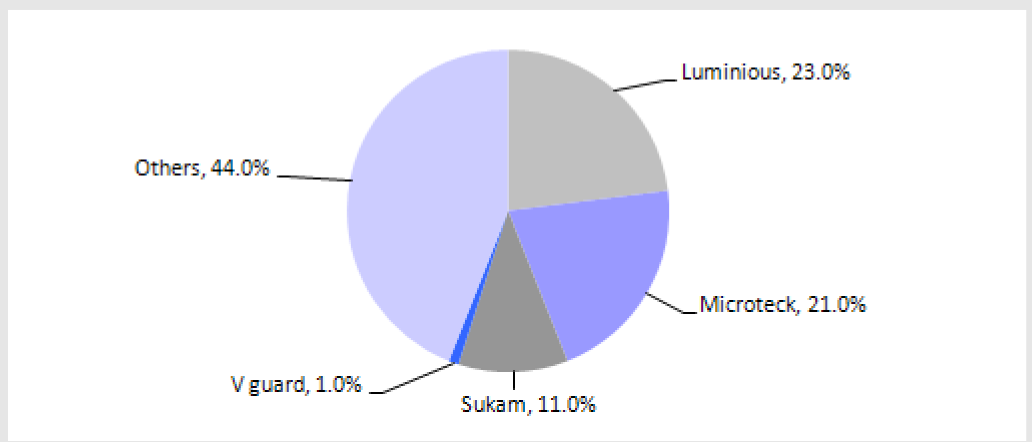
Over a period of past 10 years, solar water heaters are giving stiff competition to electric heaters. The government has made solar heaters use mandatory for commercial establishments like hospitals, guest houses, hotels, nursing homes etc under the National Solar Mission. Also, to provide impetus to the sector, government has unveiled a 30% subsidy scheme for solar water heaters. Though solar water heaters come with a higher price (difference between solar and electric heaters is ~INR10,000), they have less than two years of payback in cost recovery. Recent sharp hike in power tariffs has increased the cost of usage of electric water heaters significantly, compared to solar heaters, thereby leading to a slower pace of growth in the sector. Electric water heaters market has reached ~INR12b in the past 20 years, while solar heaters clocked ~INR6.5b in just past 8 years, thus posing stiff competition in the industry. However, with solar water heaters usage limited to Gujarat, Orissa, South India among others, the growth in electric water heaters is likely to continue but at lower levels.

#8 Digital UPS

Prevailing power crisis in India to help industry grow at 20%

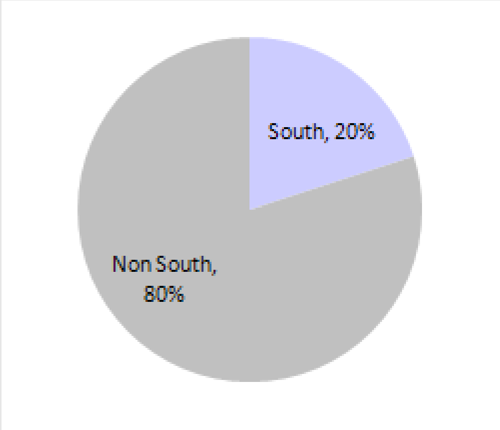
- The overall digital UPS market size stands at INR75b, of which unorganized comprises of 10% and organized dominates with 90% of the market, with players like Luminous which enjoys 23% market share followed by Microtech with 12%, Sukam at 11%, V-Guard at 1% and balance 53% by others.
- Of the INR75b market size, 20% is contributed by South India and balance by non South markets.
- Our channel checks suggest that 60% of the total cost of a digital UPS is constituted by the battery and rest by digital UPS.
- Excessive power cuts of more than 10 hours might affect the segment's growth as an UPS could function for only 2-3 hours. A UPS' replacement cycle is 8-9 years and the battery is ~3 years.
- Given the power cut situation prevailing pan India, the industry is likely to grow in excess of 20-25%, going forward.

Digital UPS organized market share break-up

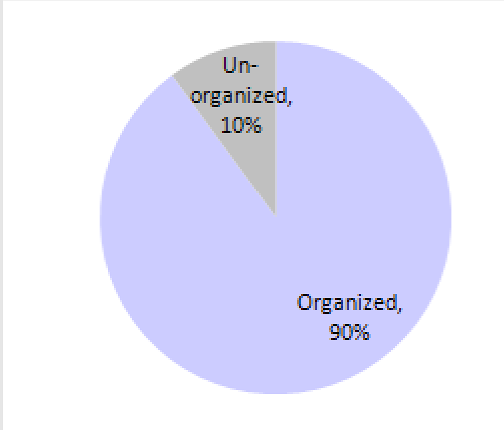


Source: Company, MOSL

Market size breakup - North v/s South



Market size breakup - organized v/s unorganized



Source: Company, MOSL

Poised to derive pan India success

Strong brand, product portfolio, pan India presence aid market share gain

- **Diversified product portfolio complimented by strong brand and pan India presence to lead to market share gains across segments.**
- **Target of INR1b ad spends by FY16 to provide significant pan India brand visibility across product segments.**
- **Expanding capacity in cables and solar water heaters to meet rising demand and address supply constraints.**
- **Plans to leverage its brand V Guard to non South markets.**

Diversified business model

Over last 10 years, company has diversified into new scalable business models

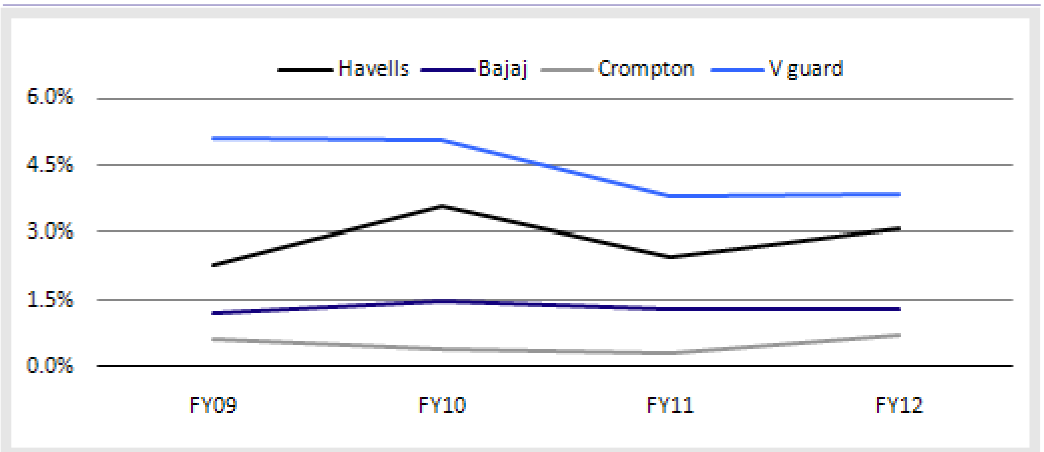
V-Guard started its business as a single product company with the flagship product being stabilizers in early 1980s. However, over the past 10 years, it expanded the portfolio to cables, electric and solar water heaters, digital UPS, fans, induction cooktops etc. Going forward, V-Guard plans to focus on cables, solar water heaters and digital UPS for growth, which in our view is the right strategy as these segments are large in size and provide significant opportunity to scale up.

INR1b ad spends target by FY16 to improve brand visibility

10% of non south revenues spend on advertisment to help creat strong brand and pricing power

Over the past five years, company spent ~4% of its sales on advertisement and sales promotion (significantly higher than competition), thus being able to build a strong brand recall and gain market share. It also spends ~10% of its non South sales on advertisements to create strong brand recall and pricing power in those markets. Going forward, V-Guard plans to invest 4% of sales on advertisements and targets INR1b spends by FY16E, which should help further gain market share across product segments. In our view, the ad spends will lead to sustainable and higher growth in the recently-penetrated non South markets and create a pull factor for products, pan India.

V-Guard's ad spends highest among peers



Source: Company, MOSL

Solar water heaters capacity

Units	Current capacity	Post capex capacity
Coimbatore	18,000	18,000
Perunderai (Erode)		72,000
Total	**18,000**	**90,000**

Cables capacity

M Coils/p.a	Current capacity	Post capex capacity
Kashipur	3.6	7.2
Coimbatore	1.2	1.2
Total	**4.8**	**8.4**

Expanding capacity to meet rising demand

V-Guard expects to double the capacity in house wiring and cable factory at Kashipur plant in Uttaranchal, which is operating at 100% capacity utilization, from 3.6mn coils p.a to 7.2mn coils p.a in 2 phases (1.8mn coils to come onstream by Sep 2013 and balance 1.8mn by March 2014) ,at a capex of INR250m in FY14. This expansion is strategically planned to take advantage of the excise duty exemption applicable till 2018. The incremental capacity in wires segment can contribute INR2.5-3b in sales at peak capacity utilization, implying peak asset turnover of ~10x. Company has already expanded its solar water heater capacity from 18,000 units to 90,000 units at Perundurai in Tamil Nadu, with a capex outlay of INR75m. This should drive growth and lead to an improvement in margins, given V-Guard enjoys 12%-14% EBITDA margins in this business, excluding subsidy and ~20% including subsidy. Post this expansion, company expects to become the market leader in this segment over next 2-3 years.

Given the strong product portfolio , brand and increased focus to grow in non South market, V-Guard will not only gain market share but become a formidable pan India player over the next few years in our view.

Non South revenue to drive growth

- Entry into non South markets complimented by wide range of newer product launch to reduce concentration on South markets.
- Strategically plans to launch traditional products in non South markets and newer products in South markets.
- With distribution network in place, focus is to increase revenue per distributor going forward, leading to higher growth and operating leverage.
- Non South markets breakeven in FY13 and to contribute to profitability, going forward.

Entry into non South markets to provide scale, reduce concentration on South markets

Newer launches, strong brand to lead to faster growth in non south markets

V-Guard being a household name, derived 97% of its revenue in FY07 from South India (Kerala, Andhra Pradesh, Karnataka and Tamil Nadu), with ~43% of revenue coming from stabilizers due to its strong brand name and strong distribution network. However, post IPO, company expanded its PVC cables capacity and also entered newer segments like digital UPS, induction cooktops, switchgears etc with a view to derisk the business model from higher concentration on stabilizers and enter segments with large market size and scalability. To be a pan India player and reduce the risk of concentration, company ventured aggressively into non South regions (Maharashtra, Haryana, Madhya Pradesh, Orissa, Himachal Pradesh, Chhattisgarh, Uttar Pradesh, Gujarat, Bihar etc) by increasing its distribution network significantly. It entered non South markets with its flagship product stabilizers which is unique and can be related to V-Guard due to the lack of large organized players in this segment. This diversification has helped reduce contribution of south revenues to 78% in FY12 and stabilisers contribution to 20% of sales in FY12.

Right strategy for new product launches

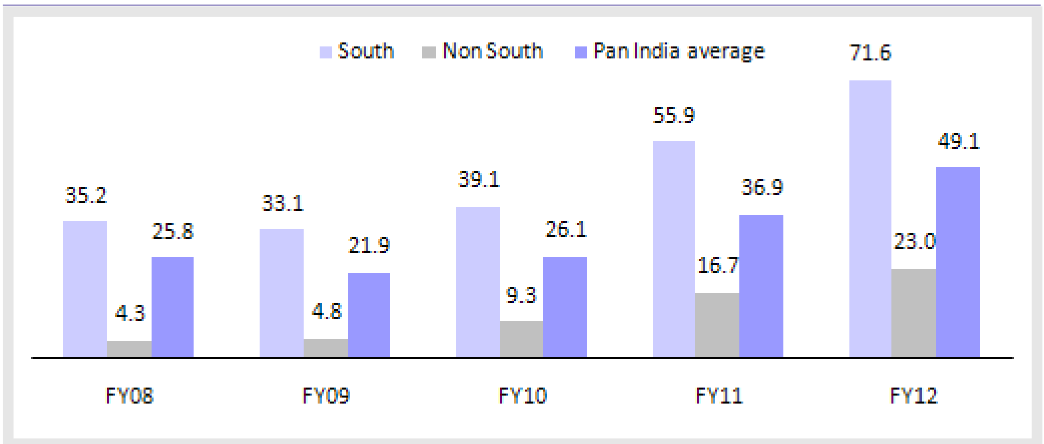
Company adopted the strategy to introduce new products like fans, digital UPS, PVC cables, induction cooktops, switchgears in South India market, while introducing traditional products like stabilizers, pumps, solar water heaters etc in non South markets. Once the newer product gains significant traction in South markets, it is introduced in non South markets. Thus, the focus is to grow newer products in South market and traditional products in non South market. To expand in non South markets, V-Guard made its facility in Himachal Pradesh and Kashipur as the manufacturing base.

Focus to improve revenue per distributor to drive operating leverage

Improvement in revenue per distributor in non south to drive growth and margins higher

V-Guard's sales per distributor in South India stands at INR70-80m per annum, compared to INR20-25m for non South. Management expects sales per distributor in non South to increase to INR50-60m over next 2-3 years by expanding the number of retailers below distributors, increased advertisement spends, introducing newer products, thus driving growth.

South v/s non South sales per distributor (In millions)

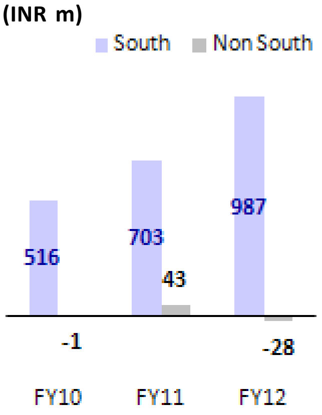


Source: Company, MOSL

Non South breakeven in FY13; profitability to improve going forward

Geographical EBITDA break-up

(INR m)



Company has managed to achieve breakeven in most of its branches in non South states given strong brand recall due to advertising, which for non South stands at 10% of non South revenues. Our channel checks suggest that V-Guard has reduced the distributor margin in non South from 6-6.5% to ~5.5% and is likely to reduce to 4-4.5% over next 2- 3 years. Also, it reduced the discount between South and non South markets from 6% to 4% and is likely to further fall going forward, thereby improving profitability of non South markets. Management expects non South to contribute significantly to profitability over next 2- 3 years as operating leverage kicks in complimented by higher sales.

Given the strong brand, increased distribution network complimented by new product launches, we believe the non South market will drive company's revenue growth. Management expects the share of South India market to reduce to 65% by FY15 from 78% in FY12. This strategy, though margin dilutive in initial years, would enable it to be a formidable player in all product categories over the next 3-4 years.

Strong pan India distribution network

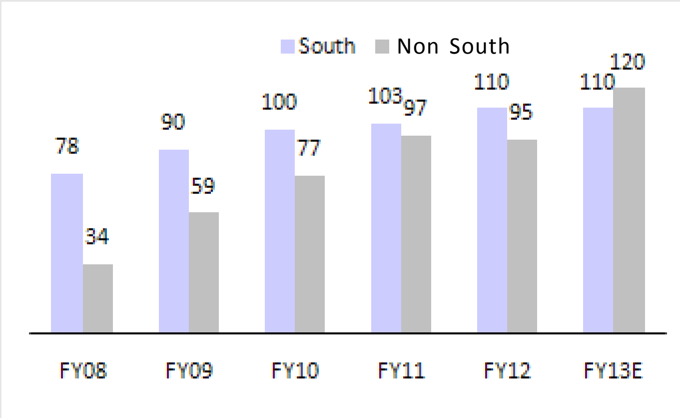
- Strong network of 230 exclusive distributors, 3,000 plus channel partners and more than 20,000 retailers, distributor addition run rate at 725-750 per annum.
- Distributor network in non South markets overtakes South markets, with 120 distributors in non South compared to 110 in South.
- Rapid expansion in non South markets led to an increase in revenue contribution from them (5% of sales in FY08 to 22% in FY12); management expects to increase it to 40% of sales over the next few years.
- Distributor margins and discounts in non South markets to decline, thereby improving margins.

Strong pan India distribution in place

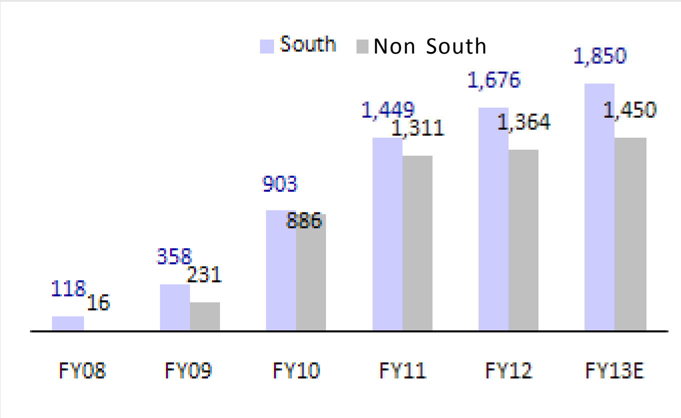
Average dealer addition run rate of ~725 dealers over last 4 years

V-Guard has a strong network of 230 exclusive distributors (120 in non South and 110 in South India), 200 plus service centers, 3,000 plus channel partners, 24 branches and more than 20,000 retailers serving the needs of over 50m customers. It has an employee strength of more than 1,750 and over 5,500 indirect employees through its SHG (self help groups) initiatives. Company's yearly dealer addition run rate over past 5 years stands at ~725, in line with competitors like Havells and Crompton. V-Guard sells stabilizers, solar water heaters and pumps (only in South India) solely through its exclusive distributors as after sales service in these products is critical. It sells fans, PVC cables and wires, switchgears etc through channel partners as these products are usually replaced and do not require sales service and also due to higher competitive intensity in these segments.

Distributor additions



Direct dealer additions



Source: Company, MOSL

Non South distribution grows at a faster pace than South

V-Guard has been a strong and established player in the South. However, post FY08, it focused on developing the reach in non South markets to drive growth and be a pan India player. Company has rapidly expanded its non South network from 34 exclusive distributors and 16 channel partners in FY08 to 95 exclusive distributors and 1,365 channel partners in FY12. This expansion in non South market led to an increase in revenue contribution from the region -- 5% of sales in FY08 to 22% in FY12. Management expects to improve it to 40% of sales from non South markets over the next few years.

Distributor margins, discounts to decline in non South; improve margins

Revenue contribution from non south to improve due to faster growth of distribution

Our channel checks suggest that V-Guard gives 4-4.5% distributor margin in South India, compared to 6% in FY08, while distributor margin in non South stands ~5.5%, which is likely to fall to 4-4.5% over the next 2-3 years. Also, to penetrate aggressively in newer non South market, it had initially offered 6% discount to distributors, which has now narrowed to 4% and is further expected to reduce to 1-2% over next 2-3 years, thereby improving margins. It also offers 0.5-1.5% turnover discount to distributors to increase sales and reduce working capital.

We believe that with a pan India distribution in place, V-Guard will focus to increase the throughput from non South stores by adding retailers under existent distributors, which should drive growth. Going forward, with a reduction in discounts and distributor margins in non South market complimented by higher operating leverage, margins are slated to rise.

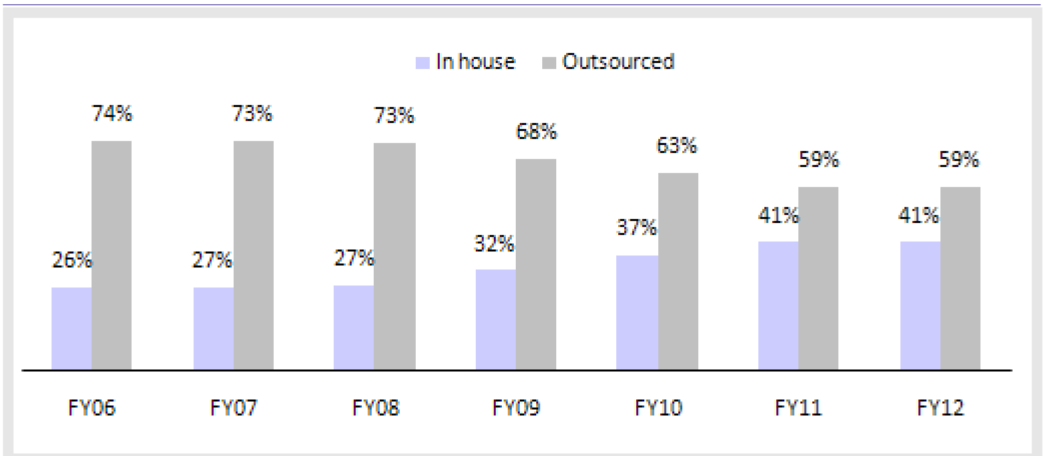
Blend of outsourcing and manufacturing to optimize quality and capex requirements

- 60% of revenue is contributed by the outsourcing model and helps to keep the business model asset light and focus on branding.
- Outsourcing purchases through SSI leads to exemption of excise duty and provides access to lower cost labor and power.
- Outsourcing model leads to higher RoCE for stabilizers which stands at 106%, pumps at 37%, water heaters at 51%, UPS and digital UPS in the range of 30-34% in FY12.

60% outsourcing makes business model asset light, leading to higher RoCE

V-Guard follows a unique model of outsourcing 60% of its revenue contribution for products like stabilizers through SSIs units and UPS, digital UPS, pumps, fans, electric water heaters and switchgears through dedicated OEMs in India and China, and 40% of revenue through in-house manufacturing for products like PVC cables, LT cables and solar water heaters to maintain uniform quality. For stabilizers, it has tie-ups with 63 exclusive vendors, which include SSIs and self-help group units in South India, build over past 23 years.

V guard adopts asset light business model



Source: Company, MOSL

V-Guard suffices non South market's demand for stabilizers through an outsourced OEM based in Himachal Pradesh through semi-automation capacity and partly through South India as logistics cost is ~2% of sales only. Also capacity can be expanded in Himachal Pradesh and at the SSI units in South India at a very minimal capex of ~INR0.5m per unit, thereby making it a scalable model in nature.

Outsourcing model helps to focus on brand building, reduce capex and working capital requirement, leading to higher return ratios

Company manufactures PVC cables and wires in Coimbatore and Kashipur. It derives 6-7% margins in the Coimbatore plant and 10-11% margins in Kashipur plant due to 100% excise exemption till 2018, 100% income tax exemption for first 5 years and 50% for next 5 years. It also has access to lower labor and power cost thus benefiting with 14-15% blended margin for the product.

The outsourcing model helps V-Guard to reduce capex requirement and working capital and generate higher return ratios -- stabilizers currently at 106%, pumps at 37%, water heaters at 51%, UPS and digital UPS at 30-34% in FY12. This also helps it focus on brand building in newer areas and lead to higher growth.

Working capital cycle to improve, lead to improved return ratios

- Entry into newer markets led to an increase in working capital cycle in initial days. However, working capital cycle peaked in FY11 at 97 days.
- Vendor financing and bill discounting to increase creditor days, while increased pricing power in non South markets, as brands gain traction, to improve debtor days.
- We expect working capital to improve from 67 days in FY12 to 58 days in FY15E, thus leading to an improvement in RoCE and RoE.

Entry into newer markets increased working capital in initial days...

Improvement in working capital cycle to lead to higher return ratios

V-Guard's working capital increased from INR492m in FY09 to INR1,830m in FY12, marking a CAGR of 55%, compared to 46.4% growth in sales in the same period. This was primarily due to an increase in Inventory days which rose from 41 in FY09 to 58 in FY12 as it aggressively launched newer products within South markets and introduced traditional products in non South markets. However, Havells enjoys debtor days of ~16, compared to 54, primarily on account of higher debtor factoring done by the company . Also, Havells enjoys higher creditor days of 73, compared to 45 for V-Guard due to higher amount of bills discounting and higher economies of scale.

V-Guard v/s Havells (Standalone) - working capital comparison

Year	FY09		FY10		FY11		FY12	
Working capital (No of days)	V guard	Havells	V guard	Havells	V guard	Havells	V guard	Havells
Debtors	55	14	60	12	61	14	54	16
Inventory	41	35	79	51	72	59	58	65
Creditors	41	58	55	61	36	74	45	73
Net working capital cycle	55	-9	83	2	97	-1	67	8

Source: Company, MOSL

Hub and spoke model to improve inventory days...

V-Guard has adopted the hub and spoke model to manage its inventory more efficiently. It has 3 hubs, one each in Coimbatore, Hyderabad, Gurgaon and plans to open 2 more in Kerala. This model will help to manage inventory better, going forward.

...Bills discounting and vendor financing to improve creditor days

Management has also introduced bills discounting and vendor financing scheme and targets to increase creditor days from 45 in FY12 to 60-65 over next few years. In bills discounting, instead of V-Guard paying the vendors in 30 days, the bank pays them post 30 days and then V-Guard will pay the bank post 60-90 days from the bank's date of payment. Also delinquency risk for the bank is lower as the payment is to be made by V-Guard and not the vendor. V-Guard is also likely to enjoy better credit terms from its suppliers due to economies of scale going forward, leading to an increase in creditor days. Company has already availed a bills discounting facility of INR500m in FY13 and is likely to scale it to INR900m in FY14E, thereby improving creditor days.

Channel financing and increasing traction in non South markets to improve debtor days

As far as debtors are concerned, V-Guard has introduced channel financing to its distributors. Also as it gains traction in non South markets, pricing power is likely to improve, going forward, thus leading to lower debtor days. Company did INR250m worth of channel financing in FY13 and expects to reach INR500m by FY14E, thereby improving debtor days, going forward.

Strategy has started to pay rich dividends

Some of these measures have already started to pay rich dividends by reducing net working capital cycle from 97 days in FY11 to 67 in FY12 and INR540m of free cash flows in FY12. Due to these measures, management expects to improve the net working capital cycle by 8-10 days every year over next 2-3 years. We believe this move is likely to improve RoCE from 27.3% in FY12 to 39.2% in FY15E and RoE from 26.6% in FY12 to 32.3% in FY15E.

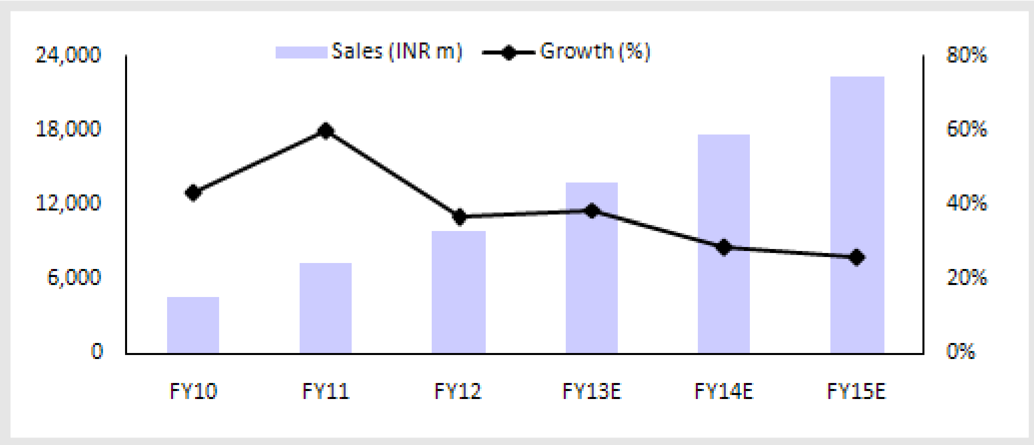
Financial outlook

Top line to post 27.1% CAGR over FY13-15E

We estimate V-Guard sales will increase from ~INR13.6b in FY13 to INR22b by FY15E, a CAGR of 27.1%, primarily driven by higher growth from non South markets, increased capacity in cables and solar water heaters and introduction of newer products like induction cooktops, switchgears and mixer grinders.

Company's strong product portfolio complimented by aggressive ad spends and penetration into newer geographies will drive market share across segments, going forward.

Sales and growth trend

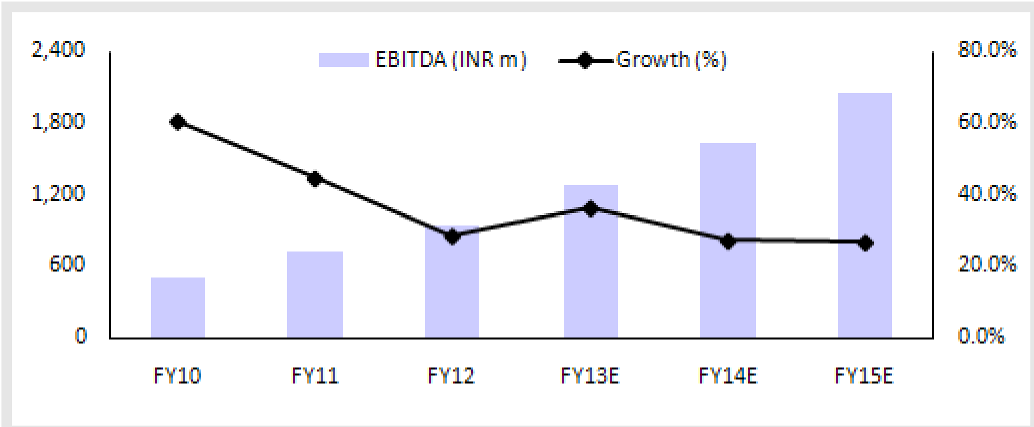


Source: Company, MOSL

EBITDA to clock 26.9% CAGR over FY12-15E

We assume V-Guard's EBITDA will increase from ~INR1.3b in FY12 to INR2b by FY15E, a CAGR of 26.9%. We expect margins to sustain around 9.2% over next two years, primarily on account of an improvement in non South markets' margins through withdrawal of discounts and reduction in distributor margins, and operating leverage due to economies of scale.

EBITDA and growth trend

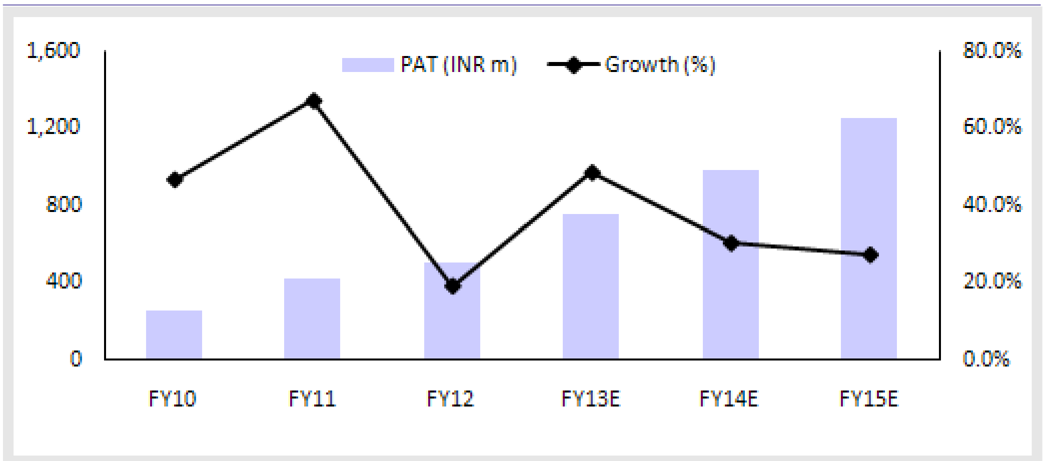


Source: Company, MOSL

PAT to post 28.6% CAGR over FY13-15E

Given 27.1% top line growth complimented by stable margins, we estimate company's PAT will increase from INR0.75b in FY13 to INR1.23b by FY15E, a CAGR of 28.6%. The growth in bottom line is likely to be higher primarily due to higher contribution from the outsourcing model, leading to lower depreciation and improvement in working capital, thus leading to higher free cash flows.

PAT and growth trend

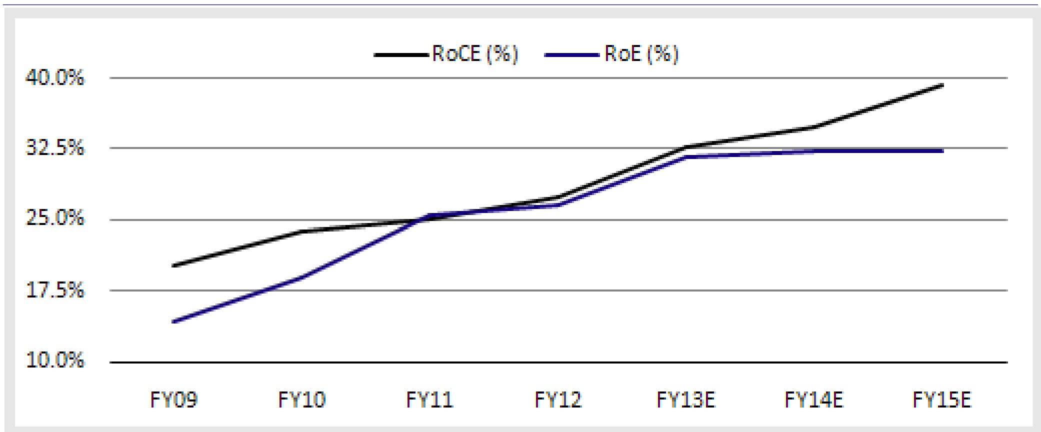


Source: Company, MOSL

RoCE, RoE set to expand significantly, with an improvement in working capital

We estimate V-Guard's RoCE and RoE will expand from 27.3% and 26.6% in FY12 to 38.9% and 32.1% respectively in FY15E, primarily due to a significant improvement in net working capital cycle, which is expected to reduce to 61 days by FY15E from 67 days in FY12. With margins remaining at ~9.2% levels, asset turnover is expected to increase going forward due to increased capacity in the cables business, which has a higher asset turnover thereby improving RoCE.

RoCE and RoE trend



Source: Company, MOSL

Valuation and view

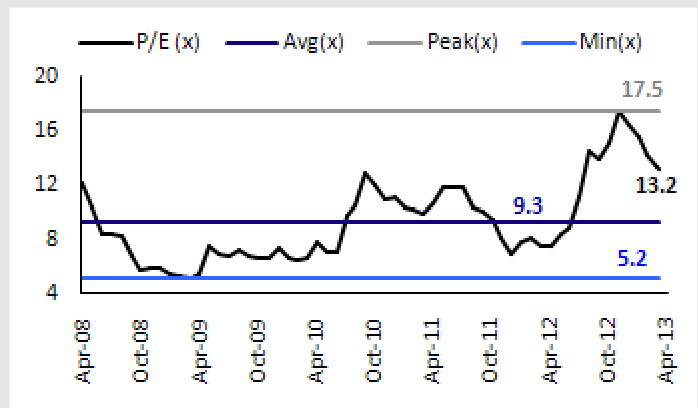
We estimate V-Guard's revenue would increase by 27.1% and net profit by 28.6% over FY13-15E. The strong product portfolio complimented by strong brand and distribution network and increased focus to grow in non South market should help it gain market share and be a formidable pan India player over the next few years. Given the asset light business model and improvement in working capital going forward, we believe RoCE and RoE will expand significantly from 27.3% and 26.6% in FY12 to 38.9% and 32.1% respectively in FY15E, thus making a strong case for rerating. At CMP of INR 438, V-Guard trades at a PE of 13.5x/10.6x FY14E/15E EPS We value the stock at 15x FY15E EPS and arrive at a target price of INR621, with a **Buy** rating.

Key assumptions

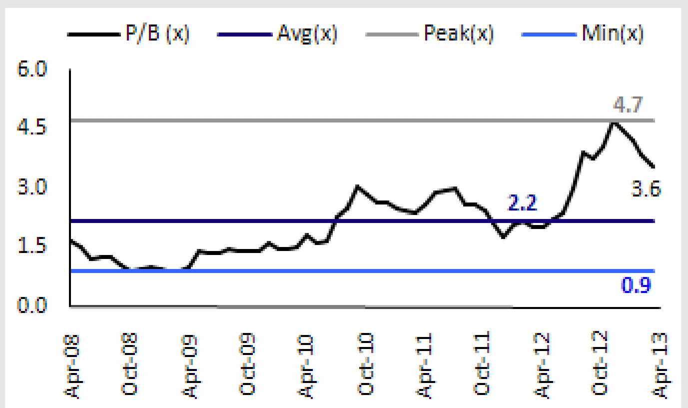
	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Sales (INR m)							
PVC Insulated Cable	695	1,199	2,061	2,826	3,660	4,758	6,066
Stabilizers	968	1,221	1,668	2,010	2,411	2,822	3,245
Pumps	662	853	1,207	1,519	1,975	2,469	3,011
Electric Fans	130	255	532	638	789	946	1,097
LT Cables	0	152	411	582	756	907	1,062
Solar Water Heaters	155	163	214	260	299	434	608
Water Heater	368	370	600	863	1,118	1,397	1,677
UPS	162	174	272	421	515	505	495
Digi UPS	11	88	216	727	1,668	2,418	3,386
Induction cooktops & switchgears					350	700	1,225
Others	17	68	82	93	116	145	181
Total sales (INR m)	3,168	4,541	7,263	9,936	13,658	17,502	22,053
Growth (%)							
PVC Insulated Cable		72.4	71.9	37.1	29.5	30.0	27.5
Stabilizers		26.1	36.7	20.5	20.0	17.0	15.0
Pumps		28.8	41.6	25.8	30.1	25.0	22.0
Electric Fans		96.4	109.1	19.8	23.6	20.0	16.0
LT Cables		0.0	169.4	41.8	30.0	20.0	17.0
Solar Water Heaters		5.1	31.5	21.4	15.4	45.0	40.0
Water Heater		0.5	62.3	43.7	29.5	25.0	20.0
UPS		7.0	56.8	54.6	22.4	-2.0	-2.0
Digi UPS		719.6	146.4	236.3	129.5	45.0	40.0
Induction cooktops & switchgears		0.0	0.0	0.0	0.0	100.0	75.0
Others		293.8	20.2	13.0	25.0	25.0	25.0

Source: Company, MOSL

V-Guard: 1-year going forward P/E



V-Guard: 1-year going forward P/BV



Key risks

Highly dependent on South India

V-Guard earns 77% of revenue from the Southern region. Though its brand recall is high in these markets, any unforeseen circumstances like poor rainfall or long period of power cuts might affect its growth.

Poor summer season can affect growth

Around 70% of the company's products are related to the summer season. Hence, in case of a poor summer, demand for products could decline thereby affecting growth.

Unable to grow in non South markets

V-Guard has a strong presence in South India and recently it ventured into non South markets. If it is not able to garner significant market share or due to muted growth in other parts of India, it might impact company's growth and earnings.

Significant increase in raw material prices

V-Guard mainly depends on copper, which is the primary raw material accounting for 70% of its total manufacturing cost. Any adverse increase in key raw materials cost, price cuts due to stiff competition and company's inability to pass it will affect profitability adversely.

Economic slowdown

Any significant slowdown in the economy might impact demand as most products are demand-derived in nature. It could offer higher discounts to distributors to reduce the inventory, thus affecting margins and profitability.

Appendix I

Segments description

Stabilizers

V-Guard has a large range of stabilizers from 110 volts to 280. It has 63 vendors built over past 23 years. Company enjoys 100% excise duty exemption till 2018, 100% income tax exemption for first 5 years, which ends in FY15, and lower labor and power cost benefits in the form of 15-17% EBITDA margin for products. V-Guard prices its products 10% above organized players and 20% above unorganized ones. Margins in South India stand at 17-18% v/s 13-15% in non South. Within stabilizers, A/C stabilizers have the highest margin of 20%, while for rest it stands at 13-15%. It also derives 20% of stabilizers sales from LED, LCD segment which is growing at 50%. Company mainly sells mainland stabilizers in non South markets, largely in UP, Bihar etc, which are used for an entire house. Excise duty on stabilizers is at 12%. V-Guard sells products 4-5% cheaper in non South markets, compared to South, with a view to penetrate. However, it expects to reduce discounts going forward and improve margins in stabilizer segment. It has 2-3 units in Orissa and 1 OEM in Himachal Pradesh for manufacturing stabilizers and hence scalability is not an issue. Margins at the retailer level in stabilizer segment stand at 25%.

PVC cables and wires

V-Guard has a capacity of 4.8m coils, with 3.6m coils capacity in Kashipur and balance in Coimbatore. Company is doubling its capacity in Kashipur from 3.6m to 7.2m, of which 1.8m is expected to come on stream by September 2013 and balance by March 2014. Currently, it is operating at 100% capacity utilization. V-Guard has a range of 0.5 sq.mm to 25 sq. mm, multi core flat and round cables. Margins in Kashipur plant stand at 11%, compared to 6-7% in Coimbatore, primarily due to excise duty benefit and cheap power and labor cost. Excise duty in this segment stands at 12.36%. To penetrate into non South markets, it has given 14 days of extra credit period to distributors. Gross margins at the retailer level (MRP- landed cost) stand at 40%, while net margins stand at 10-15%.

Pumps

V-Guard entered into this segment is early 1990s and has been focusing on domestic pumps segment. However, it recently entered the agriculture segment, where most players are 40-50 years old. There are more than 400 models, with capacities ranging from 0.25-25 HP (single and 3 phase variants), ideal to suit all domestic and agricultural requirements. The range includes mono block, centrifugal, submersible, jet pumps compressor and regenerative self-prime pumps. However, major unorganized players are in the 0.25-1HP space. V-Guard derives 70% of sales from South and 30% from North; industry is growing at 5-7%. Within South, it sells product at 4-5% higher than competition and cheaper by 2-3% in non South. Distributor margins in this segment stand at 4-6% and are similar to those given by competition; margins at retailer level in pumps segment stand at 15%. Company passes the cost increase with a lag of 15 days. Excise duty in this segment stands at 6%.

Electric water heaters

Company forayed into water heaters segment in 1996 and is available in more than 35 models, with capacities ranging from 1, 6, 10, 15, 25, 35 and 50 litre in shapes and sizes. Havells entered the segment 2 years ago and is getting aggressive. V-Guard sells products at 5% higher than competitors in the organized market and 25-30% higher in unorganized market; there is some Chinese competition in this segment. Industry is facing competition from the solar water heater segment.

Digital UPS

V-Guard entered the market in FY09-10, with three capacity variants 1,400 VA, 800 VA and 600 VA, with Sine Wave Models and Pseudo Sine Wave Models. Margins fell from 14% in FY11 to 8% in FY12 due to higher allocation of ad spends in this segment. Battery margins stood at 4-5%, compared to digital UPS margins at ~15%. There is no major price difference among organized players, while unorganized is 20% cheaper to organized players. The UPS price is 40% of the overall digital UPS cost and the balance 60% is battery; replacement cycle of an UPS is 8-9 years, while for batteries it is three years. Entry barriers in the business are brand, technology and distribution network. No major Chinese competition.

Solar water heaters

The solar water heater market in India consists of segments like domestic and commercial/industrial, with a market size of INR6.5b. V-Guard entered the market in FY11, with more than 23 models and capacities ranging from 100-5,000 lpd. Power tariffs have increased, thereby making the cost of usage of electric water heaters significantly higher. The solar water heater market is also growing as the government has made it mandatory for their use in commercial establishments like hospitals, guest houses, hotels, nursing homes etc under the National Solar Mission. To provide impetus to the sector, government offers 30% subsidy on solar water heaters, thereby reducing the payback period for consumers to less than 2 years; price difference between solar and electric water heaters post subsidy is ~INR10,000. V-Guard enjoys EBITDA margin of 20-22%, including subsidy, and excluding ~11-12% in this segment. However, with significant capacity additions from 18,000 units to 90,000 in 3QFY13, V-Guard is eyeing to be the leader in this space over next 2-3 years.

Fans

Company launched fans in 2006 and has more than 30 models, with variants of ceiling, pedestal, table, wall, ventilating and exhaust fans. Of the INR640m sales in FY12 for V-Guard, 66% comes from ceiling fans, 19% from pedestal and table fans and rest from others. There is a lack of pricing power in this segment as it takes ~6 months to pass on the prices to end consumers. Ceiling fans are manufactured in India and pedestal and table fans are outsourced from China and enjoy gross margins of 35%. Company plans to break even in FY14 and profitable in FY15. V-Guard also has a higher presence in Tier 2 and Tier 3 cities in this segment.

Induction cooktops and switchgears

Company recently launched induction cooktops and switchgear products. Switchgear has been launched in Kerala market only and will be launched in Tamil Nadu and

Andhra Pradesh in FY14, while induction cooktops have been introduced in Kerala and Karnataka only and will be launched in Tamil Nadu and Andhra Pradesh in 1QFY14. Company makes 40% gross margin in these products. It plans to launch mixer grinders starting 1QFY14 in South India.

Key management personnel

Mr Kochouseph Chittilappilly - Chairman

Mr Kochouseph is the founder promoter of V-Guard and has been the MD since inception in 1977. He is a post graduate in science, from Calicut University. In April 2012, he passed the baton to his son Mr Mithun Chittilappilly as the Managing Director, assuming the post of Executive Vice Chairman and on November 1, 2012, when P. G. R. Prasad stepped down, he took over as the Chairman of the board.

Mr Mithun Chittilappilly - Managing Director

He is a post graduate in finance from University of Melbourne, Australia. After completing his graduation in commerce, he joined V-Guard to be trained in various departments, ranging from finance to marketing. After graduating in May 2006 from Australia, he joined as the Executive Director and in 2012 was appointed as the Managing Director.

Dr George Sleeba - Joint MD

Dr Sleeba has been inducted as an Additional Director of the company from May 27, 2010. He has also been appointed as the Joint Managing Director from June 1, 2010. He was the former Chairman and Managing Director of FACT Ltd.

Mr Jacob Kuruvilla - CFO

Mr Jacob Kuruvilla is the Chief Financial Officer and heads the overall finance and accounts function.

Mr Ramachandran Venketaraman - Director (Marketing & Strategy)

Mr Ramachandran Venketaraman has joined from 1 April 2012 as Director (Marketing & Strategy). Prior to joining us, he was associated with Unilever, Hindustan Unilever and LG Electronics India in various capacities and last held responsibility as Director and Chief strategy Officer, LG electronics, South west Asia region.

Appendix II

PVC Cable Factory

LT Cable Factory

Solar Water Heater Factory

Stabilizer Manufacturing Units

Financials and Valuation

Income Statement (INR Million)

Y/E March	2010	2011	2012	2013E	2014E	2015E
Gross Revenues	**4,623**	**7,375**	**10,068**	**13,985**	**17,887**	**22,538**
Less: Excise Duty	82	111	132	328	385	485
Net Sales	**4,541**	**7,263**	**9,936**	**13,658**	**17,502**	**22,053**
Change (%)	43.3	60.0	36.8	37.5	28.1	26.0
Total Expenditure	**4,037**	**6,536**	**9,001**	**12,394**	**15,900**	**20,024**
% of Sales	88.9	90.0	90.6	90.8	90.9	90.8
EBITDA	**504**	**728**	**935**	**1,263**	**1,601**	**2,029**
Margin (%)	11.1	10.0	9.4	9.3	9.2	9.2
Depreciation	71	79	97	116	131	142
EBIT	**432**	**648**	**838**	**1,147**	**1,471**	**1,887**
Int. and Finance Charges	51	113	170	192	211	186
Other Income - Rec.	14	20	24	28	32	37
PBT bef. EO Exp.	**395**	**555**	**692**	**983**	**1,293**	**1,739**
EO Expense/(Income)	0	-36	0	0	0	0
PBT after EO Exp.	**395**	**591**	**692**	**983**	**1,293**	**1,739**
Current Tax	127	161	202	236	323	504
Deferred Tax	13	4	-19	0	0	0
Tax Rate (%)	35.5	27.9	26.6	24.0	25.0	29.0
Reported PAT	**255**	**426**	**508**	**747**	**969**	**1,234**
PAT Adj for EO items	**255**	**400**	**508**	**747**	**969**	**1,234**
Change (%)	46.8	57.1	27.0	47.0	29.8	27.3
Margin (%)	5.6	5.5	5.1	5.5	5.5	5.6

Standalone - Balance Sheet (INR Million)

Y/E March	2010	2011	2012	2013E	2014E	2015E
Equity Share Capital	298	298	298	298	298	298
Total Reserves	1,116	1,421	1,808	2,364	3,091	4,014
Net Worth	**1,415**	**1,720**	**2,106**	**2,663**	**3,390**	**4,313**
Deferred Liabilities	57	61	43	43	43	43
Total Loans	805	1,394	1,091	1,391	1,241	941
Capital Employed	**2,277**	**3,175**	**3,240**	**4,097**	**4,674**	**5,297**
Gross Block	1,379	1,462	1,625	1,850	2,050	2,250
Less: Accum. Deprn.	256	324	395	511	642	784
Net Fixed Assets	**1,123**	**1,137**	**1,230**	**1,339**	**1,408**	**1,466**
Capital WIP	29	14	111	82	105	132
Total Investments	46	0	0	0	0	0
Curr. Assets, Loans&Adv.	1,904	2,898	3,365	4,779	6,064	7,507
Inventory	985	1,424	1,574	2,389	2,986	3,674
Account Receivables	756	1,231	1,478	1,983	2,541	3,202
Cash and Bank Balance	74	71	34	58	83	40
Loans and Advances	89	172	279	349	454	590
Curr. Liability & Prov.	824	874	1,466	2,103	2,904	3,809
Account Payables	690	712	1,222	1,765	2,482	3,281
Provisions	134	162	245	339	421	528
Net Current Assets	**1,080**	**2,023**	**1,899**	**2,676**	**3,160**	**3,698**
Appl. of Funds	**2,277**	**3,175**	**3,240**	**4,097**	**4,674**	**5,297**

E: MOSL Estimates; * Adjusted for treasury stocks

Financials and Valuation

Ratios

Y/E March	2010	2011	2012	2013E	2014E	2015E
Basic (INR)*						
EPS	**8.5**	**13.4**	**17.0**	**25.0**	**32.5**	**41.4**
Cash EPS	10.9	16.1	20.3	28.9	36.9	46.1
BV/Share	47.4	57.6	70.6	89.2	113.6	144.5
DPS	3.0	3.5	3.5	5.5	7.0	9.0
Payout (%)	41.0	28.5	23.9	25.5	25.0	25.2
Valuation (x) *						
P/E			25.7	17.5	13.5	10.6
Cash P/E			21.6	15.1	11.9	9.5
P/BV			6.2	4.9	3.9	3.0
EV/Sales			1.4	1.1	0.8	0.6
EV/EBITDA			15.1	11.4	8.9	6.9
Dividend Yield (%)			0.8	1.3	1.6	2.1
Return Ratios (%)						
RoE	19.0	25.5	26.6	31.3	32.0	32.1
RoCE	23.8	25.0	27.3	32.4	34.6	38.9
Working Capital Ratios						
Asset Turnover (x)	2.0	2.3	3.1	3.3	3.7	4.2
Inventory (Days)	79	72	58	64	62	61
Debtor (Days)	60	61	54	52	52	52
Creditor (Days)	55	36	45	47	52	54
Working Capital Turnover (Days)	81	98	69	70	64	61
Leverage Ratio (x)						
Current Ratio	2.3	3.3	2.3	2.3	2.1	2.0
Debt/Equity	0.6	0.8	0.5	0.5	0.4	0.2

* Adjusted for treasury stocks

Standalone - Cash Flow Statement (INR Million)

Y/E March	2010	2011	2012	2013E	2014E	2015E
Oper. Profit/(Loss) before Tax	395	591	692	983	1,293	1,739
Depreciation	71	79	97	116	131	142
Interest and finance charges	51	112	162	192	211	186
Direct Taxes Paid	125	181	157	236	323	504
(Inc)/Dec in WC	-584	-946	30	-753	-459	-580
CF from Operations	**-192**	**-344**	**823**	**303**	**851**	**982**
EO expense	3	3	14	0	0	0
CF from Operating incl EO	**-190**	**-341**	**837**	**303**	**851**	**982**
(inc)/dec in FA	-253	-86	-293	-196	-223	-227
(Pur)/Sale of Invest.	68	46	0	0	0	0
Others	4	3	15	0	0	0
CF from investments	**-181**	**-37**	**-277**	**-196**	**-223**	**-227**
(Inc)/Dec in Debt	541	593	-310	300	-150	-300
Interest Paid	-50	-113	-166	-192	-211	-186
Dividend Paid	-87	-104	-121	-190	-242	-312
CF from Fin. Activity	**404**	**375**	**-597**	**-83**	**-603**	**-797**
Inc/Dec of Cash	**33**	**-3**	**-38**	**24**	**25**	**-43**
Add: Beginning Balance	41	74	71	34	58	83
Closing Balance	**74**	**71**	**33**	**58**	**83**	**40**

E: MOSL Estimates; * Adjusted for treasury stocks

N O T E S

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