



V-GUARD INDUSTRIES LIMITED  
ANNUAL REPORT 2014-15



**POWERING AHEAD**

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### Disclaimer

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks and uncertainty and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include raw materials' cost or availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business, and other factors relating to the Company's operations, such as litigation, labour negotiations and fiscal regimes.

## Our Vision

Let us endeavour to make V-Guard a trusted household name.

## Our Mission

To offer a range of products at affordable prices, which add to comfort of life through saving in manual labour, time and energy or for entertainment

To make our products meet international quality standards and provide trouble free performance

To adopt designs, which support timely and efficient post sale service

To continuously innovate and add value to our products, if needed with technical collaboration.

To continuously assess and improve customer care.

## Powering Ahead

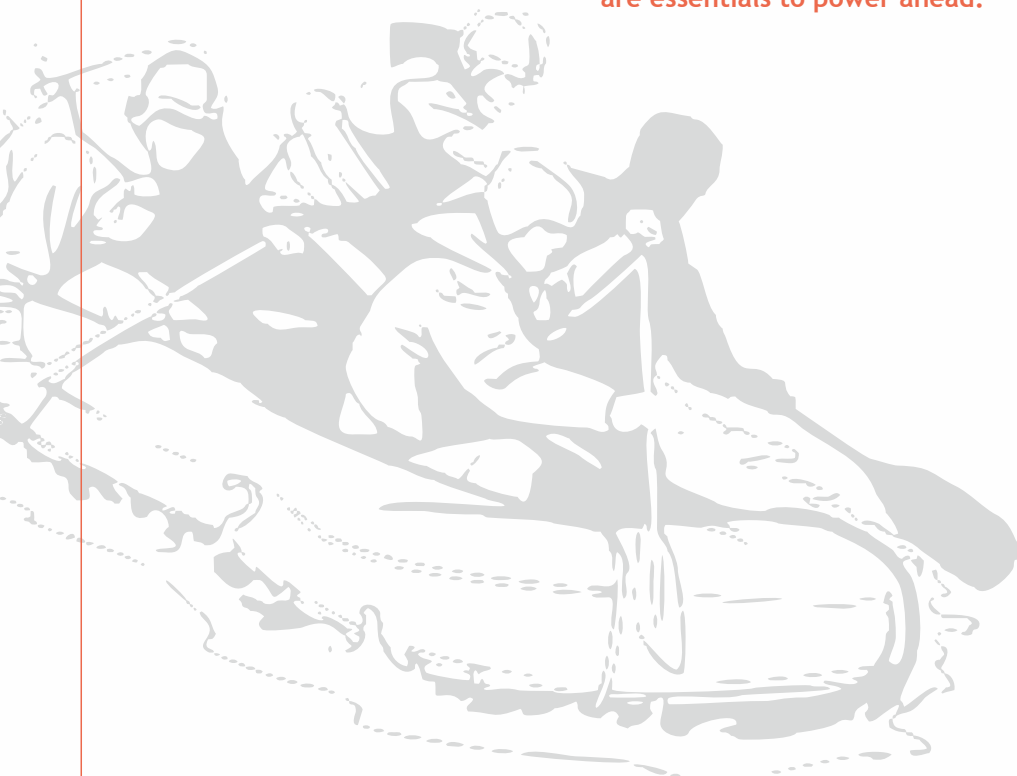
River rafting depends on many skills and factors that don't exist in other sports. In River Rafting teamwork is critically important. Not only it involves situational tactics but also long term strategy for rafting, and this strategy may change over the course of the journey.

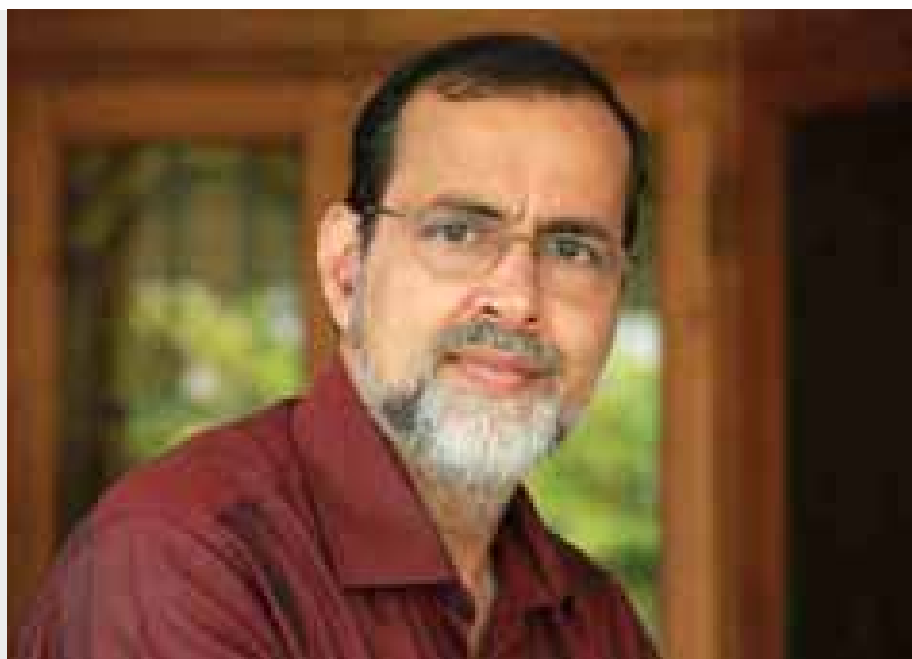
An unexpected current can completely change the game. Handling the situation, tactics, strategy and resilience to stay afloat and keep the momentum are essentials to power ahead.

Despite a challenging year, at V-Guard we remained differentiated by implementing our key strategies. During the year under review we registered a y-o-y revenue growth of 15% as well as lowered our debts, increased the cash flows and improved our operational efficiencies.

We maintain our competitive advantage by diversifying our product mix and markets, maintaining an asset light operational model, improving efficiencies across functional areas and strong marketing investments. The V-Guard brand equity continue to uphold its edge by our customer centric product innovations and strong after sales service.

The entrepreneurial spirit and deep commitment from V-Guard management & staff to drive better and smarter solutions for consumers continues to deliver value for our stakeholders and enable us to power ahead.





## Chairman's Letter

# We are Powering Ahead

Dear Shareholders,

Thank you for taking time to read our annual report of FY 14-15 which comes with the theme “Powering Ahead” - an expression of our operational resilience in the face of changing business conditions.

We continue to successfully stride through diverse challenges powered by the V-Guard brand equity, governance, product innovations, strategic initiatives and by maintaining stakeholder relations.

### Performance Review

Your company, though started FY 14-15 on a buoyant note, stumbled upon many macroeconomic challenges in the second half of the year. The favourable consumer sentiments echoed positively on our performance during the first two quarters of the year. During this period our revenue as well as margins improved substantially. However during

Q3 & Q4, the initial euphoria plummeted giving way to weak consumer sentiments, lower rural demand on inferior farm incomes and slower-than-expected growth in construction activity. Sales of some of the key products in our electrical segments such as housing wires, cables and pumps were impacted, reflecting on our revenue growth as well as margins.

Though lower than expected, our top line improved by 15% y-o-y basis as against 12% in the previous year. During the year under review we achieved a total revenue of Rs.1746 crores as against 1517 crores in the previous year. The growth in revenue was propelled by increased sales from water heaters, stabilizers, fans and kitchen appliances. Our amplified advertising and aggressive marketing initiatives helped in increasing the revenue share from non south markets

to 33% as against 30% in the previous year.

Our margins were impacted due to multiple macroeconomic developments - among them reduction in copper prices which lead to destocking of cables & wires by distributors and subsequent inventory losses. Planned spending for enhancing our manpower in key functional areas of production and marketing along with expansion of our customer service networks also had its impact on our margins. Our PAT remained flat y-o-y basis.

Higher depreciation charges and increased tax outgo impacted the PAT margin. As you may be aware, some of the plants availing tax free status during last five years have now come partly under tax. Our average tax rate has gone up from last year's 26 per cent to 30 per cent.

Consistent with our progressive dividend policy, the Board of Directors have recommended a final dividend of Rs.4.50 per share for FY14-15.

### Key Initiatives in FY14-15

During the year when the market became unfavourable, we turned inwards to further improve our operating efficiencies. By deploying rigorous internal controls, inventory management and tight control on receivables, we managed to increase our cash flows substantially. Our working capital cycle marked an improvement by 6 days during the year.

During the year we launched our premium variant of the electrical water heater “Pebble” across India. Pebble comes with engineered polymer anti-corrosion technology for 100 per cent rust resistance. The product was widely accepted by consumers and contributed considerably to our revenue growth. Further leveraging on our brand and distribution network, we expanded market for our cook tops and

mixer grinders by launching them in few other southern states as well.

Customer care is akin to our vision to make V-Guard a trusted household name. In order to improve the quality of our customer service and ensure sustainable growth, we invested in a franchise-based after sales service system, upgraded the IT infrastructure and also setup a unified third-party call center.

With the involvement of an external consultant, we are in the process of making our supply chain leaner and more robust. This new SCM initiative will, among other benefits, help to maintain optimal inventory at various stock points, thereby bringing down inventory costs.

### Governance

We continue to comply fully with all governance, statutory, reporting and social norms.

The Board is responsible for the leadership, control, development, risk management and long-term success of the company. V-Guard has its own unique culture and ethos established since its inception, to achieve the highest standards of governance through honesty and openness in all business dealings. Our Board comprises of a diverse mix of experienced individuals, chosen for their relevant skill sets, valued for their independent mind-set and collectively supporting the management on all corporate strategic initiatives.

### Corporate Social Responsibility

Social responsiveness and community development is embedded into V-Guard business model beyond compliance and regulatory compulsions. Corporate Social Responsibility is an integral part of our culture and we are committed to fulfill our responsibilities as a member of the society and community. V-Guard continues to contribute towards

improvements in the field of education, healthcare, disaster relief and environment. Our CSR team, guided by the Board constituted CSR committee, has implemented various social development initiatives across India. In the year FY 14-15 we spent Rs.164 lakhs towards these initiatives.

### Outlook

As on today, India has one of the lowest per capita in consumer durables usage. It is estimated that by 2025 India will become the 5<sup>th</sup> largest consumer durable market in the world. With the government's focus on rural electrification, the usage is expected to increase across the rural heartlands in India. With a healthy product mix, pan-Indian branch, distributor, retail and service networks, we are in full readiness to capitalise on the emerging opportunities.

We will continue to focus on increasing our retail network in non-south states and thereby increase revenue contribution from non-south distributors. A strong foundation has been laid in the non-South markets through aggressive brand building initiatives which will be continued. The focus will be on turning around the underperforming states, resolving product mismatches in these states and strengthening the sales teams.

India is poised to embrace GST, a long cherished uniform tax regime soon. With the implementation of GST, multiple levels of taxation is expected to come down. It could also reduce cost of carrying inventory, since businesses can manage with lesser number of warehouses. It will also reduce the time and cost taken for movement of goods across the country, bringing down logistic cost. V-Guard is poised to take advantage of GST implementation with our advanced technological as well as operational capabilities.

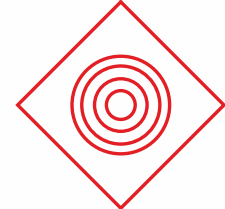
Let me assure you that today V-Guard

is a more resilient company with a well nurtured product and process advantage. While we remain committed to increasing the shareholder value, we are equally committed to our responsibility towards corporate governance, society and environment.

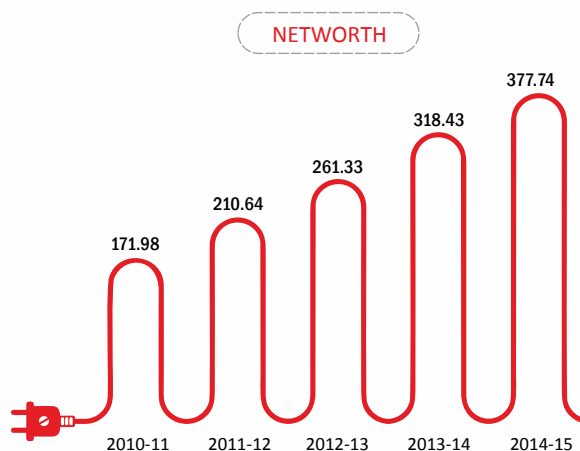
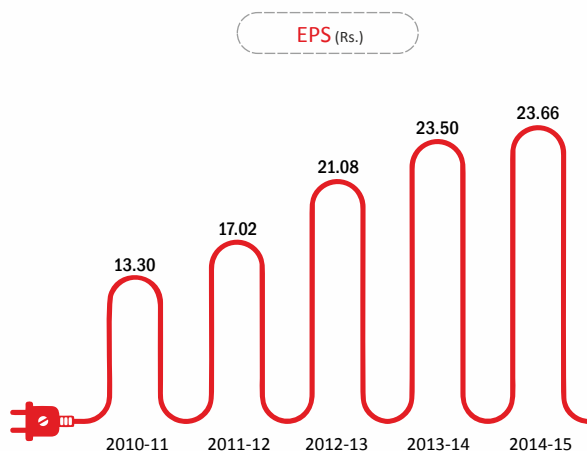
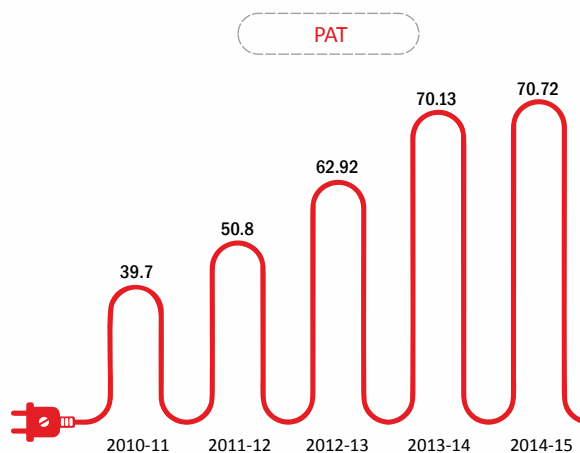
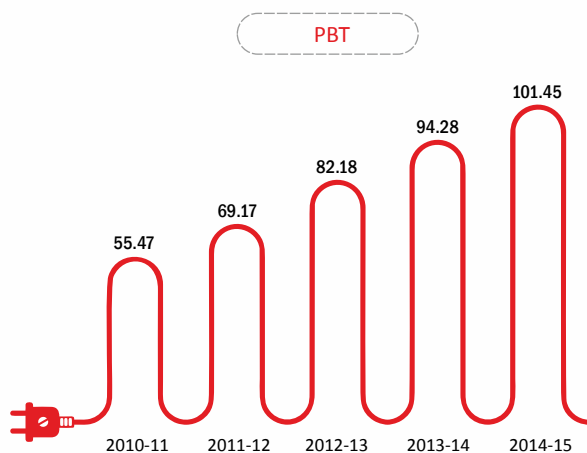
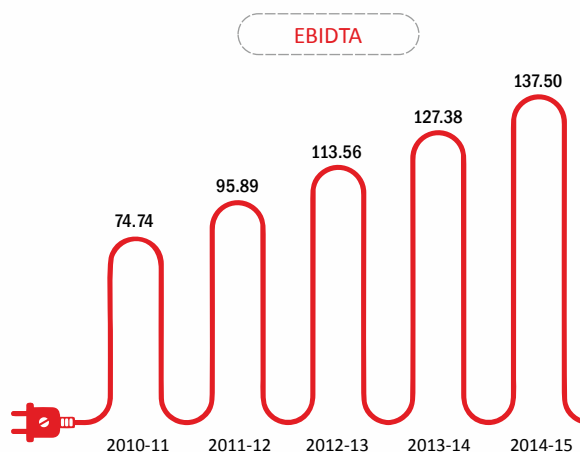
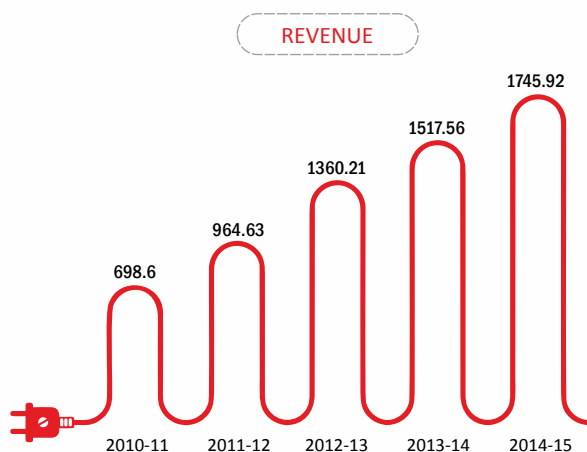
I would like to express my sincere thanks and gratitude to all stakeholders including our esteemed shareholders, valued customers, vendors, banks, Central and various State Governments for the faith reposed by them in the company.

With Best Wishes

**Kochouseph Chittilappilly**  
Chairman



## Financial Highlights (Rs. in crores)



Graph Not to Scale

**Financial Highlights - 10 Years at a Glance**

(Rs. in crores)

Financial Performance	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Total revenue	161.01	210.85	263.82	301.21	430.04	698.60	964.63	1,360.21	1,517.56	1745.92
EBIDTA	19.13	27.29	30.82	35.06	51.79	74.74	95.89	113.56	127.38	137.5
Profit before tax	14.26	20.70	22.73	26.28	39.51	55.47	69.17	82.18	94.28	101.45
Profit after tax	9.20	13.50	14.64	17.35	25.47	39.70	50.80	62.92	70.13	70.72
Earnings per share - Rs.	30.68	8.68	6.53	5.81	8.53	13.30	17.02	21.08	23.50	23.66
Dividend per share - Rs.	10.00	4.00	6.50	2.50	3.00	3.50	3.50	3.50	4.50	4.50

**CAGR FY 11-15**

REVENUE  
**+26%**

EBIDTA  
**+16%**

PBT  
**+16%**

EPS  
**+16%**

**Financial Highlights - 5 Years at a Glance**

(Rs. in crores)

Key Ratios	2010-11	2011-12	2012-13	2013-14	2014-15
EBIDTA / Revenue	10.70%	9.90%	8.30%	8.40%	7.90%
PBT / Revenue	7.90%	7.20%	6.00%	6.20%	5.80%
PAT / Revenue	5.70%	5.30%	4.60%	4.60%	4.10%
ROCE ( 5 Yrs)	21.65%	25.87%	22.68%	25.33%	25.85%
ROE / Return on Net worth (5 yrs)	24.79%	24.12%	24.07%	22.02%	18.72%
Debt Equity Ratio (5 Yrs)	0.81	0.52	0.63	0.34	0.18

	2010-11	2011-12	2012-13	2013-14	2014-15
Share capital	29.85	29.85	29.85	29.85	29.97
Reserves & Surplus	142.13	180.79	231.48	288.58	347.76
<b>Net worth</b>	<b>171.98</b>	<b>210.64</b>	<b>261.33</b>	<b>318.43</b>	<b>377.74</b>
Borrowings:					
Long term borrowings	4.51	23.94	39.70	40.17	31.00
Short term borrowings	134.93	85.21	125.39	68.18	36.77
<b>Total Borrowings</b>	<b>139.44</b>	<b>109.15</b>	<b>165.09</b>	<b>108.35</b>	<b>67.77</b>
Current Liabilities (net)	79.27	137.12	214.21	235.70	261.90
Fixed Assets	115.22	134.13	146.97	169.66	163.58
Current Assets	286.64	330.16	489.16	496.29	542.54

## Powering Ahead by

# Strategic Advantages

Q&A with Mithun K Chittilappilly -Managing Director

### On FY14-15 Performance

In FY 14-15, our performance was a mixed bag. While our revenue improved by 15%, significant drop in copper prices during the year impacted realizations from wires and cables business and had a pull on our margins. Similarly, the pumps & motors business was impacted during the year in its key markets - Kerala and Karnataka. However on operational efficiency front we made notable strides. Our working capital cycle improved by 6 days Y-o-Y and 7 days Q-o-Q to 70 days resulting in a strong cash flow of 88 crores from operations. We have considerably brought down the debt on our balance sheet - by Rs. 41 crores during the year to Rs. 68 crores. Debt-equity ratio remains robust at 0.2x.

### On performance of V-Guard product portfolio

Among our flagships products, voltage stabilizer continue to drive growth for the company with this business delivering a Y-o-Y growth of 23%. The fans business has been a turnaround story for the Company in FY15 with a strong growth of 34% Y-o-Y along with significant growth in the margins. The new kitchen appliance category received favourable response. During the year we launched induction cooktops in Tamil Nadu. Mixer grinders which was introduced in the last financial year, also improved its revenue contribution.

Our new premium variant of water heaters "Pebble" was successfully launched on a pan India basis in FY14-15. This high-end variant was well accepted and also helped us to expand our network among stores which sells premium consumer durables. This is in tandem with our

strategy on expanding value added premium products for better margins.

### Key Strategic Advantages

Our strategies are aimed at creating a technological and operating synergy across all functional areas for increasing organizational efficiencies.

Today our greatest strategic advantage is having a solid business platform encompassing technology, product development, quality, brand equity and an asset light manufacturing model backed by an efficient supply chain. On the HR front we are driven by leadership, intelligence and motivated people. We continuously develop and support our teams, increasing their engagement and capabilities. Our customer service network was revamped in the recent years under a corporate strategic initiative titled "Parivarthan". Having a benchmark service model driven by ownership and enabled by technology, we are able to deliver a better brand experience for our customers. Similarly with our SCM initiative titled "Udaan" we aim to improve our value chain making it leaner & seamless.

### Future Prospects & Plans

With demand on the central government to speed up implementation of its announced plans, the construction and housing sector is expected to rebound in FY16. Smart cities and housing for all schemes are welcome announcements. Among states, Andhra Pradesh is witnessing a heightened activity with bifurcation of the state and building of its new capital underway. The business and investment climate in Telangana is limping back to normalcy after bifurcation. The much awaited GST once implemented, can rationalise logistics expenses.

While powering ahead for a higher level of growth, we are better equipped to respond flexibly to changes in customer needs, market trends and business conditions. We would focus on increased revenue from value added products for better margins and will continue our efforts to improve cash flows and working capital cycle. On the marketing front, we will maintain ongoing expansion in non-south markets. Adding new retailers under non-south distributors is afoot for increasing average realization.





## Powering Ahead by

# A Healthy Product Mix

At V-Guard product strategies are driven by our brand vision to enrich consumers by fulfilling their ever changing aspirations to own & experience technologically advanced household durables.

In less than four decades V-Guard's product range has become a synonym of durability and up-to-date technology. Our R&D focus is on designing and manufacturing products that are built to last.

### Key Product Strategies :

Reducing lone product dependency and maintaining a diversified product mix

Brand building and increasing retail network

Focus on developing new and improved product variants through R&D

Having an efficient after sales service



Voltage Stabilizers



Water Heaters



Fans



Wires



Power & Control Cables



UPS



Solar Water Heaters



Digital UPS, Inverters & Battery



Domestic & Agricultural Pumps



Switch Gears



Mixer Grinders



Induction Cooktops

Powering Ahead by

## Research & Development

The R&D Centre in V-Guard is fully committed in its relentless pursuance for innovation by creating products with a single minded purpose of “customer delight”. The continuous endeavours of many years has also resulted in the R & D wing being conferred with the coveted DSIR recognition in 2012-2013 for the

'In-house R & D Centre'. It's a title that only a select few electrical and electronics manufacturing companies have managed to attain. The Centre has over the years played a key role in the designing of a various range of products that have been widely appreciated and accepted nation wide.

Research on Solar PV, Electrical Kitchen Appliances, Solar Water Heaters, Pumps, Motors and Fans are some of the key areas of research being undertaken by the R&D team.



The key focus of the R&D is to develop customer & environment friendly electrical and electronic products. The R&D team also extends its knowhow on manufacturing processes and systems to improve efficiencies in the manufacturing ecosystem. R&D team also handhold V-Guard vendors time to time.

