

Grading Rationale for CRISIL IPO Grading

V-Guard Industries Limited

CRISIL IPO Grade 3.0/5.0

Public Issue of 8,000,000 Equity Shares of face value Rs 10 at a targeted issue size of Rs 680–700 million.

Bid/Offer Opens : Book Building
 Bid/Offer Closes : *
 Net Shares Offered to Public : 7,600,000
 As % of post issue Equity : 25.5
 Shares Outstanding (Post issue) : 29,847,520

Lead Manager

Anand Rathi Securities Limited

Registrar to the Issue

Intime Spectrum Registry Limited

V-Guard Industries Limited			
Past financial performance		2005-06	2006-07
Operating income	Rs million	1,770.09	2,332.40
Operating margins	Per cent	10.72	11.59
Net profits	Rs million	92.05	182.39
Net margins	Per cent	5.20	7.82
ROCE	Per cent	33.77	47.66
Return on equity	Per cent	42.70	73.53
No. of equity shares	Million	3.00	21.40
Net worth	Rs million	197.76	298.34
Basic EPS	Rs	30.68	8.52
Diluted EPS	Rs	30.68	8.52
Book value	Rs per share	65.92	13.94
Gearing	Times	1.52	1.20

Shareholding Pattern	Prior to issue		Post issue	
	No. of shares	%	No. of shares	%
Promoters	10,863,180	49.7	10,863,180	36.4
Promoter group	8,986,907	41.1	8,986,907	30.1
Others	1,192,623	5.5	1,192,623	4.0
Employees	804,810	3.7	1,204,810	4.0
Public	-	0.0	7,600,000	25.5
Total	21,847,520	100.0	29,847,520	100.0

In order to arrive at the overall grade, CRISIL has considered the following broad parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance

Overall assessment

CRISIL has assigned a CRISIL IPO Grade “3/5” (pronounced “three on five”) to the proposed initial public offer of V-Guard Industries Ltd (V-Guard). This grade indicates that the fundamentals of the issue are average in relation to the other listed equity securities in India.

The grading assigned reflects the company’s dominance in the stabilizer business in South India and its growing presence in the small ticket electronic and electrical goods industry in general. The grading also factors in the high brand recall enjoyed by V-Guard in South India and the strengths of its unique manufacturing model, which has ensured high margins for the company. However, the grading is tempered by the fact that the company’s success in products other than stabilizers has been limited and the fact that the planned expansions into the northern market and the new business segment of LT power cables will be much more challenging than the existing businesses. Moreover, the company will find it difficult to replicate its current manufacturing (outsourcing) model in North India. While the management has managed to build a strong presence in South India, it has displayed a rather reactive attitude in capturing potential and showing growth. Success in its planned expansion strategies would call for greater aggressiveness and dynamism on the part of the management.

An established brand in South India for stabilizers

V-Guard has been in the stabilizers business for the past 30 years and has established itself as a strong brand in South India. V-Guard has a market share of around 50 per cent in South India and enjoys a very high brand recall for voltage stabilizers on account of good product quality and effective after sales service. Despite having a limited market reach in the north, V-Guard with an all India market share of about 15 per cent, is a market leader. The company has a track record of various innovations in stabilizers, which is reflected in the wide-range of products in its portfolio.

Unique manufacturing model; but scalability remains an issue

V-Guard operates on an unique model for the manufacture of stabilizers and uninterrupted power supply (UPS). There are 69 charitable organizations manufacturing stabilizers with a complete buy-back arrangement with V-Guard. The products are manufactured, tested and packed (under V-Guard's name) at their site and directly dispatched to V-Guard's godown. Although, this model of outsourcing ensures high margins for the company, it however places constraints on the company in terms of its ability to scale-up production quickly. Moreover, the company will find it difficult to replicate its current manufacturing (outsourcing) model in North India.

Foray into northern markets will need aggressive marketing strategies

V-Guard has traditionally operated in localized southern markets. However the planned expansion into the northern markets, which has well entrenched local brands, will be much more challenging than the existing markets. V-Guard will have to adopt aggressive marketing strategies to gain market share in the North along with slow ramp-up in volumes, which will apply a downward pressure on the margins in the short term.

Expansion into LT power cables will require market penetrative strategies

Manufacture and sales of electric cables as well as power cables is a lower margin business, as the cables market is highly fragmented and competitive with strong nationalized players such as Finolex Cables Limited, Havells India Limited and Universal Cables Limited. V-Guard's strategy of entering into these businesses will require the company to offer price discounts in order to penetrate the price sensitive northern markets. This will shrink the overall margins of the company.

Management will have to display greater dynamism and pro-activity

So far, V-Guard's management has been conservative and risk averse with respect to exploring growth avenues. The company has been diversifying into products on the suggestion of its dealers and distributors, thus exhibiting a reactive style of management as opposed to a proactive style. Currently, it has seven products in its portfolio. But stabilizers still continue to account for more than 40 per cent of its revenue, indicating its limited accomplishment in introducing and making a success of different products in the past. The company now plans to venture into highly competitive markets and product lines, where the management will have to display greater dynamism and pro-activity in order to succeed.

Business profile

V-Guard is engaged in the business of sales of stabilizers, UPS, electric pumps, fans and electric water heater and manufacturing and sales of electric cables and solar water heaters. Stabilizers and electric pumps and manufacture and sales of electric cables are the key products of the company, accounting for over 80 per cent of the revenues.

Currently, more than 73 per cent of the company's revenues come from the trading of equipments such as voltage stabilizers, UPS, pumps, electric water heaters and electric fans. Sale of self manufactured items (electric cables and solar water heaters) forms only 26-27 per cent of the company's revenues. The stabilizer business contributed over 40 per cent of the total revenues, while pumps and electric cables constitute around 20 per cent each.

V-Guard started as a stabilizer and pumps marketing company. It launched electric water heaters in 1996 and UPS in 1998. The company entered the cable manufacturing business in 1999 with the commissioning of a domestic cable manufacturing unit at Coimbatore and started manufacturing solar water heaters in 2002. In 2006, the company launched V-Guard fans.

V-Guard Industries Limited (V-Guard) was incorporated as a public limited company on February 12, 1996. It was promoted by Mr Kochouseph Chittilappilly who started the manufacture and sale of stabilisers in 1977 under a partnership concern named Premier Electronics. The promoter's younger son Mr. Mithun Chittilappilly joined the company in 2003 and is currently the executive director and is mostly involved in the new market and new product development aspects of the business.

The promoters Mr. Kochouseph Chittilappilly and Mrs. Sheela Kochouseph have ventured into a host of other businesses like amusement parks, readymade garments, manufacturing of metal cabinets and accessories and business process outsourcing services. Mr. Arun Chittilappilly (the promoter's elder son) is the managing director of one of the amusement parks and is the likely successor of the entertainment business while the younger son Mr. Mithun Chittilappilly is being groomed to manage V-Guard.

The company has been following the strategy of introducing new products based on inputs from the dealers and distributors, thereby capitalising on the dealer and distributor network developed over the years. The company currently has 105 distributors and over 7,000 dealers spread across 16 states and 2 Union territories. Going forward, V-Guard expects to capitalise on the relationship with the dealers and the brand recall of south Indians settled in the north to promote product sales there.

Of the planned IPO proceeds, V-Guard plans to utilise Rs 214.41 million to fund its LT power cable plant at Coimbatore, Rs 233.41 million for setting-up a domestic cable manufacturing plant at Uttaranchal and Rs 90.46 million for establishing an enamelling plant at Coimbatore and Rs 56.71 million in setting up of development and pilot production plants for pumps, electric water heaters and fans in Coimbatore and Himachal Pradesh. The remaining Rs 95.65 million will be utilised for establishing service and distribution centres at Bangalore, Hubli and Vijaywada.

Financial profile

For 2006-07, the company's operating income and net profits were Rs 2,332.4 million (Rs 1,770 million in 2005-06) and Rs 182.4 million (Rs 92 million in 2005-06), respectively. The operating income of the company has grown at a CAGR of 19 per cent over the past 4 years, while PAT has grown at a CAGR of 47 per cent in the same period. The return on equity (ROE) and return on capital employed (RoCE) for 2006-07 stood at 73.5 per cent and 42.7 per cent, respectively.

Profile of Management and Board

The company's operations are headed by the founder promoter and managing director Mr. Kochouseph Chittilappilly. Mr. Mithun Chittilappilly (promoter's younger son) is the executive director of the company. Mr. Vijayan, who has been with the company for over 20 years, is the administrative director of the company and essentially looks after the mature southern markets where as Mr. Mithun Chittilappilly concentrates on new market development.

V-Guard's Board consists of six directors, which include two promoter and promoter group – directors, one whole-time director, one non-executive director and two independent directors. The non-executive director has been associated with the company for a long time as their tax consultant and regularly advises the company on sales tax related issues. The independent directors, including the Chairman, joined the board on August 16, 2007 and have relevant experience in capital markets and finance.

Board of Directors

Names	Designation	Age	Qualification	Date of appointment	Work-ex/Past positions held
Mr. P.G.R. Prasad	Chairman and Independent Director	61	Certified Associate of the Indian Institute of Bankers, Chartered Financial Analyst and Certified Financial Planner, Financial Planning Standards Board of India	Director w.e.f August 16, 2007.	Worked for 25 years with SBI and its subsidiaries and retired as Managing Director of SBI Mutual Funds
Mr. Kochouseph Chittilappilly	Managing Director	56	Post graduate in Science (Physics major) - Calicut University	MD w.e.f February 12, 1996	Worked for 3 years as a supervisor in State Government owned electronic company named Telics Limited.
Mr. Mithun Chittilappilly	Executive Director	26	Bachelor's degree in commerce and a Post graduate in Finance from University of Melbourne.	Director w.e.f August 1, 2007.	
Mr. K.Vijayan	Whole time Director	60	Diploma in Technology, Diploma in Electronics/Radio/Communication and Diploma in Television Technology	Director w.e.f February 12, 1996	Served in Indian Air force for 18 years
Mr. R. Krishna Iyer	Non-Executive Director	69	Chartered Accountant	Director w.e.f November 16, 1998.	Practicing chartered accountant, Professional Tax advisor for various public and private companies, Served as Director of FACT from 2002 to 2005.
Mr. C.J. George	Independent Director	48	Post graduate in Commerce, Certified Financial Planner and a Research Scholar with School of Management Studies, Cochin	Director w.e.f August 16, 2007.	Managing Director of Geojit Financial Services Ltd, Executive Committee member of Financial Planning Standards Board of India, Kerala Management Association, Cochin Chamber of Commerce

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