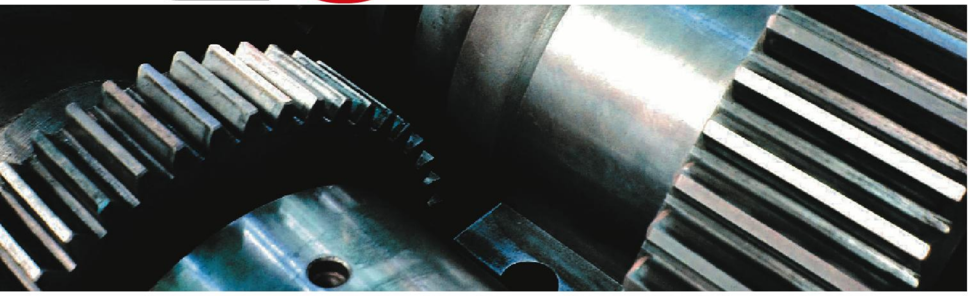
IFB Industries Limited

# Q3 Financial Report

Quarter ended 31st December, 2013



**Total Income**
₹279.32 crore (YoY growth of 3%)

**EBDITA (From operation)**
₹17.96 crore

**EBDITA Margin** 6.4%

**EPS (Annualised)** ₹8.72

**RONW (Annualised)** 20.8%

**ROCE (Annualised)** 10.8%

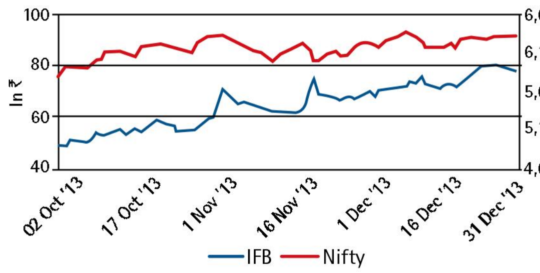
**Market Capitalisation**
₹315.09 crore (As on 31.12.13/NSE)

**Cash & Equivalents (Net)**
₹21.98 crore (As on 31.12.13)

**EV** ₹293.11 crore

**EV/EBDITA** 4.08

**Market Capitalisation/Net Sales** 0.28




IFB vs Nifty—Daily price movement chart

IFB Industries Limited's operations consist of two divisions, Fine Blanking and Appliances. The Fine Blanking Division has two manufacturing facilities, one each at Kolkata and Bangalore. The Appliances Division has its manufacturing facility at Goa and imports some of its products from various countries around the globe.

## FINANCIAL REVIEW

### P&L

For the Quarter ended Dec '13, IFB Industries Limited has reported net sales of ₹264.17 crore, a meagre growth of 3% over the corresponding quarter of last year. The EBDITA margin improved sharply in the 3rd Quarter as compared to the 2nd Quarter of the current year because of improvement in the operating environment due to a steady exchange rate. The EBDITA margin has fallen to 6.4% during the 3rd Quarter of the current year as compared to 7.8% in the same Quarter of the previous year. Depreciation expenses have increased by 27% during the Quarter ended Dec '13 compared to the corresponding period of the previous year, owing to the ongoing capital expenditure programme.

## BS

IFB Industries Limited has remained debt free on a net basis as on 31st Dec '13. Buyer's credit will be repaid to a great extent during the 4th Quarter of the current year. The ROCE and RONW have improved in the 3rd Quarter as compared to the 2nd Quarter of the current year.

## Cash flow

During the Quarter ended Dec '13, cash generated from operations improved as compared to the 2nd Quarter of the current year due to the lower blockages in working capital. The inventory consisting of the air conditioners and refrigerators will be further liquidated during the 4th Quarter. Capital expenditure to the tune of ₹12 crore was incurred during the Quarter ended Dec '13 and an amount of ₹53.69 crore was incurred during the 9 months ended Dec '13. An amount of ₹10.91 crore was invested in mutual funds during the 3rd Quarter of the current year and mutual funds worth ₹10.37 crore were sold during the 9 months ended Dec '13.

We expect further reduction in inventory and debtors in the coming quarters so that the free cash flow can be maximised.

## Outlook

During the 3rd Quarter of the current year, the Indian rupee steadied as compared to its sharp depreciation against all major world currencies during the first 6 months of the current year.

The news of tapering as well as the flight of capital from the debt market caused the Indian rupee to touch a record low in Aug '13 but it recovered gradually during the 3rd Quarter of the current year. The current account deficit improved between Aug '13 and Nov '13 mainly due to the curb in gold imports but remains a major cause of concern. Food inflation continued its upward march during the 3rd Quarter of the current year but the RBI took a gamble in holding off the rates with an assumption of softening of the inflation rate due to the expected reduction in food prices as a result of a good monsoon. The decision of the US Federal Reserve to gradually taper off $10 billion from Jan '14 was accepted well by the Financial Market but its impact remains to be seen. The Fed Chairman also indicated that it is likely to continue reducing the monthly amount of money it creates by $10 billion at each future FOMC (Federal Open Market Committee) meeting as long as the economy performs in line with his current expectations. That would bring QE3 to an end by Dec '14.

During the Quarter ended Dec '13, the automobile industry continued to sputter as consumers postponed purchases because of the sluggish economy and rising prices. Passenger car sales in the country fell for the first time in 11 years in 2013 as customers continued to defer purchases amid a slowdown. It is only the two-wheeler segment that withstood this severe slowdown and grew reasonably, backed by strong rural demand and aided by a good monsoon.

India Rating, a Fitch agency has maintained a negative to stable outlook for the automobile

sector for the next 12 months. The continued higher interest rates, higher fuel prices and consumer inflation have prompted consumers to defer their purchase decisions.

The Fine Blanking Division, with its continued focus on the two-wheeler segment, is expected to perform well going forward. We will provide more focus on the non-auto segment and its progress will be reported in the next report.

Despite the difficult economic situation, the appliance industry in India is expected to record moderate growth during 2013-14. The growth in rural and semi-urban areas is expected to be significantly more compared to that in urban areas, owing to higher disposable income. Power shortages across India remained a major concern.

## Appliances Division

The Appliances Division sells a wide range of domestic and industrial appliances such as washing machines (domestic and industrial), dry cleaning and other finishing equipment (like irons etc), microwave ovens, dishwashers (industrial and domestic), clothes dryers, modular kitchens, kitchen appliances (hobs, chimneys and built in ovens), water purifiers, refrigerators and air conditioners etc.

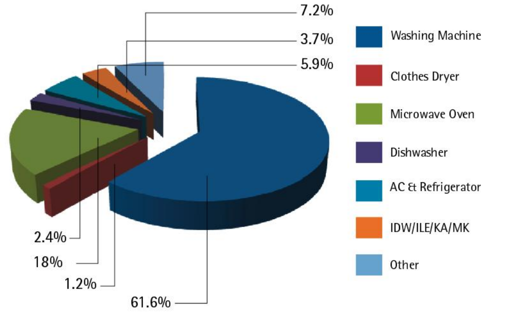
The manufacturing facility at Goa makes washing machines and clothes dryers while the rest of the products are imported from various quality suppliers around the globe to specifications defined by IFB Industries Limited as needed for its brand, Indian usage and operating conditions.

Despite the difficult economic situation, the Appliances Division was able to maintain its revenue compared with the comparative Quarter of the previous year. IFB Industries Limited continued to be the market leader in front loader washing machines.

The EBDITA margin during the 3rd Quarter of 2013–14 was 6.5% and this is a significant improvement over the previous Quarter of the current year. It improved due to the sobering of the exchange rate and our strategy of hedging almost all of our forex exposure in revenue transactions. The price increases in line with the increase in exchange rate have also helped. The forex loss during the quarter ended Dec '13 was ₹1.1 crore, resulting in a loss of 0.6% EBDITA margin. During the 9 months ended Dec '13, losses on account of forex were ₹14.7 crore and this has impacted the EBDITA margin to the extent of 2.3%.

### For the Quarter ended Dec '13

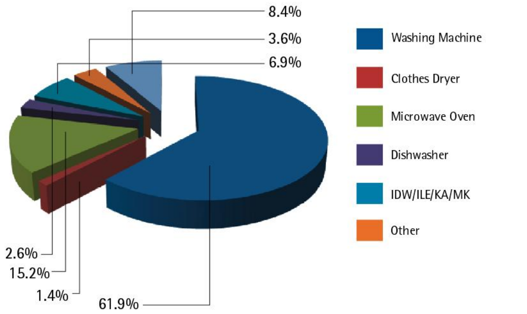
The Appliances Division has recorded a net revenue of ₹230.99 crore for the quarter ended Dec '13. Washing machines continued to be the leading contributor to sales at approximately 62% of total sales.




Product-wise spread in the Appliances Division

### For YTD Dec '13

The net sales during the 9 months ended Dec '13 was ₹620.33 crore. Washing machines and microwaves jointly contributed 77% of total sales.




Product-wise spread in the Appliances Division

## Summarised financial performance of the Appliances Division

(₹ in crore)

| | Q3('13–'14) | Q3('12–'13) | 9M('13–'14) | 9M('12–'13) | FY('12–'13) |
|---|---|---|---|---|---|
| Revenue | 230.99 | 229.91 | 620.33 | 585.38 | 759.95 |
| EBDITA | 15.11 | 18.65 | 27.67 | 43.36 | 49.15 |
| EBDITA (%) | 6.5% | 8.1% | 4.5% | 7.4% | 6.5% |
| EBIT | 11.35 | 15.81 | 17.76 | 35.07 | 37.83 |
| Capital Employed | 172.41 | 155.09 | 172.41 | 155.09 | 152.69 |
| ROCE | 26.3% | 40.8% | 13.7% | 30.2% | 24.8% |

## Future outlook and strategy

IFB Points, our exclusive franchise-run retail stores, were started around 27 months ago. Additions to the IFB Points were not up to expectations during the first 9 months of the current year, mainly because of non-availability of quality spaces.
It may be mentioned that so far 32 IFB Points have been closed owing primarily to incorrect selection of locations. These IFB Points cater to tier 1, tier 2 and tier 3 cities. It is important to note that during the 3rd Quarter of the current year approximately 14% of total sales came from these IFB Points. During 2012-13, these IFB Points contributed to 9% of total net sales. The strategy of having IFB Points is working well as sales from these outlets are increasing and will increase further owing to strong demand from smaller cities. Sales from IFB Points are more profitable compared with sales through normal retail channels. It may be noted that IFB Points are run by franchisees and IFB Industries Limited reimburses part of the initial operating costs such as rental etc. The entire initial support costs of IFB Points are being charged to the P&L.

Sales through our website were also strong during Apr-Dec of this fiscal year and the number of visitors has significantly increased compared to last year. Sales through the website during the first 9 months of 2013–14 amounted ₹6.51 crore.

Sales of additives and accessories are expected to record good growth in the coming months.

In order to push sales further, 1,145 new dealers were added during the first 9 months of 2013-14, which has brought sales amounting to ₹102 crore.

As on 31st Dec '13, we have a total of 481 service franchisees across India with a plan to increase the number of franchisees to over 500 by 31st March '14.

Our own call centre (we call it a service centre) at Goa has been fully operational since Nov '12. We also have outsourced call centres at Munnar and Hyderabad. The service centre at Goa focuses on outbound calls to gauge customer satisfaction and also reduce pending customer issues through focused data analytics.

Through our service network, we have been focusing on post sales contact and dedicated business franchisees and mandatory calls for customer satisfaction.

OEM exports to developed countries are taking time but we are getting a good response.
All product related certifications for the environment, energy, wash quality and also product safety related certifications are in place. Exports to France have started and we expect more orders in the coming months. Exports to Nigeria and the Middle East will commence in the 4th Quarter of the current year.

The EBDITA margin expansion is our major concern. Price increases have been implemented w.e.f. 1st Sep '13. Expectations of a stable exchange rate will help to protect and enhance the margins. Localisations of components are in focus and, in fact, we were able to reduce the raw material consumption as a percentage of sales during the first 9 months of the current year.

IFB Industries Limited has tied up with the historic C.A. Boca Juniors Club of Argentina. The objective is to enable the discovery of hidden football talent in the country. This initiative, introduced in Dec '13 is a national football tournament for school and college students, played across 8 cities in India. Football is one of the most popular games in India and it is expected to provide IFB Industries Limited with good mileage.

### Fine Blanking Division

The Fine Blanking Division mainly caters to the automobile sector and its growth is linked to it.

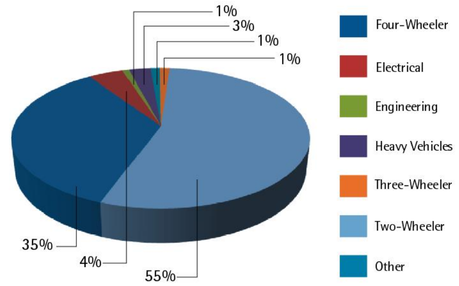
During the quarter and 9 months ended Dec '13, automobile sales slumped as a slowing economy and poor sentiment, dampened by high interest rates and pinching inflation, saw buyers stay away from showrooms despite heavy discounts and attractive freebies. The increased cost of imports forced car manufacturers to raise prices, which has further impacted demand. Two-wheelers fared better due to the reasonably strong rural demand as a result of a good monsoon. Two-wheelers are the only bright segment in the Indian automobile industry that is going through one of its longest periods of decline.

The Society of Indian Automobile Manufacturers (SIAM) expects a turnaround only in the 2nd Quarter of 2014–15.

Despite the adverse environment, the Fine Blanking Division was successful in improving its revenue by 23% during the 3rd Quarter of the current year compared to the same Quarter of the previous year due to its strong focus on the two-wheeler segment.

### For the Quarter ended Dec '13

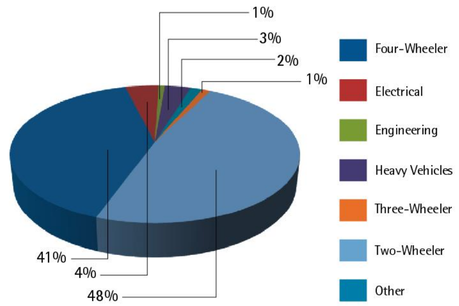
For the Quarter ended Dec '13, the four-wheeler segment contributed 35% of revenue, compared to 52% during the previous financial year (2012-13). The contribution of the two-wheeler segment has increased to 55% from 30% last year. We were successful in increasing the sales of the two-wheeler segment as compared with 2012–13.




Customer segment breakdown

### For YTD Dec '13

For the 9 months ended Dec '13, sales to the two-wheeler segment have overtaken the sales to the four-wheeler segment.




Customer segment breakdown

### Summarised financial performance of the Engineering Division

(₹ in crore)

| | Q3 ('13–'14) | Q3 ('12–'13) | 9M ('13–'14) | 9M ('12–'13) | FY ('12–'13) |
|---|---|---|---|---|---|
| Revenue | 47.07 | 38.21 | 124.70 | 115.16 | 155.96 |
| EBDITA | 4.96 | 4.25 | 12.02 | 13.6 | 17.18 |
| EBDITA (%) | 11% | 11% | 10% | 11% | 11% |
| EBIT | 2.97 | 2.62 | 6.35 | 9.13 | 11.49 |
| Capital Employed | 105.65 | 85.52 | 105.65 | 85.52 | 91.54 |
| ROCE (Annualised) | 11.2% | 12.3% | 8.0% | 14.2% | 12.6% |

### Future outlook and strategy

The Fine Blanking Division is aggressively pursuing more orders from the two-wheeler segment as it is less sensitive to adverse economic situations. It is also following up with its customers for price increases. It may be noted that there is always a lag between the price increases as given to the suppliers and price increases as received from the customers. In order to improve the EBDITA, we are focusing on product mix, MOQ (minimum order quantity) orders and reduction in low contributory items. Sourcing of raw materials from cheaper sources without sacrifice in terms of quality is being explored. We are also focusing on maximisation of machine capacity utilisation in order to improve the ROCE.

## INCOME STATEMENT

(₹ in crore)

| | 3rd Quarter | | YTD | |
|---|---|---|---|---|
| | 2013–14 | 2012–13 | 2013–14 | 2012–13 |
| Gross Sales | 342.75 | 330.58 | 904.41 | 843.54 |
| Less: Excise Duty | 20.24 | 20.88 | 57.02 | 55.57 |
| Less: Trade Scheme | 58.16 | 54.76 | 143.34 | 126.50 |
| Net Sales | 264.17 | 255.03 | 704.05 | 661.47 |
| Service Income | 9.17 | 8.28 | 26.88 | 25.31 |
| Other Income | 5.98 | 7.67 | 19.18 | 21.10 |
| Total Income | 279.32 | 270.98 | 750.11 | 707.88 |
| EBITDA (Before exceptional expense) | 17.96 | 21.19 | 34,01 | 51.90 |
| EBITDA Margin | 6.4% | 7.8% | 4.5% | 7.3% |
| Depreciation | 6.03 | 4.75 | 16.52 | 13.20 |
| Interest | 0.45 | 0.06 | 0.97 | 0.16 |
| PBT | 11.48 | 16.38 | 16.52 | 38.54 |
| PAT | 8.84 | 11.99 | 12.50 | 27.36 |
| PAT Margin | 3.2% | 4.4% | 1.7% | 3.9% |
| No of Shares (In crore) | 4.05 | 4.05 | 4.05 | 4.05 |
| Earnings Per Share (₹) | 2.18 | 2.96 | 3.09 | 6.98 |

# BALANCE SHEET

(₹ in crore)

| | 31st Dec, '13 | 31st Dec, '12 |
|---|---|---|
| **I EQUITY AND LIABILITIES** | | |
| Shareholders' Funds | | |
| Share Capital | 41.28 | 41.28 |
| Reserves & Surplus | 286.86 | 270.27 |
| **II NON CURRENT LIABILITIES** | | |
| Deferred Tax Liabilities (Net) | 21.66 | 18.96 |
| Other Long-term Liabilities | 6.97 | 6.46 |
| Long-term Provisions | 30.47 | 34.42 |
| **III CURRENT LIABILITIES** | | |
| Short-term Borrowings | 69.33 | 6.97 |
| Trade Payables | 144.69 | 147.87 |
| Other Current Liabilities | 49.47 | 39.52 |
| Short-term Provisions | 4.33 | - |
| **Total** | **655.06** | **565.75** |
| **I ASSETS** | | |
| Non-current Assets—Fixed Assets | | |
| Tangible Assets | 215.76 | 170.16 |
| Intangible Assets | 6.49 | 8.78 |
| Capital Work-in-progress | 18.45 | 9.70 |
| Long-term Loans and Advances | 49.09 | 35.81 |
| Other Non-current Assets | 0.03 | 1.44 |
| **II CURRENT ASSETS** | | |
| Current Investments | 48.29 | 63.92 |
| Inventories | 166.16 | 139.58 |
| Trade Receivables | 73.15 | 63.39 |
| Cash and Bank Balances | 43.02 | 35.30 |
| Short-term Loans and Advances | 34.43 | 37.45 |
| Other Current Assets | 0.19 | 0.22 |
| **Total** | **655.06** | **565.75** |

## KEY RATIOS

| | 3rd Quarter | | YTD | |
|---|---|---|---|---|
| | 31st Dec, '13 | 31st Dec, '12 | 31st Dec, '13 | 31st Dec, '12 |
| Earnings Per Share (In ₹) | 2.18 | 2.96 | 3.09 | 6.98 |
| Book Value Per Share (In ₹) | 81.02 | 76.93 | 81.02 | 76.93 |
| Current Ratio# | 1.36 | 1.75 | 1.36 | 1.75 |
| Quick Ratio# | 0.74 | 1.03 | 0.74 | 1.03 |
| EBDIT/Total Income (Before exceptional items) | 6.4% | 7.8% | 4.5% | 7.3% |
| Net Profit Margin as % of Total Income | 3.2% | 4.4% | 1.7% | 3.9% |
| Net Worth (₹ in crore) | 220.30 | 203.71 | 220.30 | 203.71 |
| RONW (%)—Annualised | 20.8% | 32.2% | 10.0% | 25.2% |
| ROCE on Gross Assets Deployed (%) | 7.0% | 11.6% | 3.4% | 9.1% |
| No of Equity Shares (In crore) | 4.05 | 4.05 | 4.05 | 4.05 |
| Average Market Price as on Quarter/Year End | 64.75 | 104.83 | 64.80 | 83.64 |
| Market Capitalisation (₹ in crore) | 315.09 | 423.23 | 315.09 | 423.23 |
| Headcount (Numbers) | 1,446 | 1,356 | 1,446 | 1,356 |
| Total Income Per Employee (₹ in lakh) | 19.32 | 19.98 | 51.87 | 52.20 |
| PBT Per Employee (₹ in lakh) | 0.79 | 1.21 | 1.14 | 2.84 |
| Days Sundry Debtors Outstanding | 19 | 17 | 22 | 20 |
| Inventory Holding (Day sales) | 44 | 39 | 50 | 45 |

# Includes investments and secured loans

## CASH FLOW STATEMENT

| | YTD 31st Dec, '13 (₹ in crore) | YTD 31st Dec, '12 (₹ in crore) | Quarter ended 31st Dec, '13 (₹ in crore) | Quarter ended 31st Dec, '12 (₹ in crore) |
|---|---|---|---|---|
| (A) CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net Profit Before Tax | 16.52 | 38.54 | 11.49 | 16.38 |
| Adjustments for: | | | | |
| Depreciation/Amortisation | 16.52 | 13.20 | 6.03 | 4.75 |
| Disposal of Fixed Assets (Gain/Loss) | (0.06) | (0.01) | 0.01 | - |
| Write Off of Fixed Assets | 0.16 | 0.02 | 0.14 | 0.01 |
| Write Off of Debts/Advances | 0.24 | 0.18 | 0.12 | 0.16 |
| Provision for Doubtful Debts and Advances | 0.37 | 0.23 | 0.35 | 0.21 |
| Dividend from Mutual Funds | (1.31) | (1.33) | (0.35) | (0.56) |
| Net Gain on Sale of Mutual Funds | (0.44) | (0.99) | - | (0.38) |
| Appreciation in Value of Investment | (0.16) | - | (0.09) | - |
| Write Back of Liabilities No Longer Required | (0.51) | (0.49) | (0.28) | (0.22) |
| Write Back of Provisions No Longer Required | (0.08) | (0.01) | - | - |
| Financial Charges | 0.97 | 0.16 | 0.45 | 0.06 |
| **Operating Profit Before Working Capital Changes** | **32.22** | **49.50** | **17.87** | **20.41** |
| **Movement In Working Capital** | **(44.03)** | **(12.99)** | **(2.97)** | **(20.13)** |
| **Cash Generated from Operations** | **(11.81)** | **36.51** | **14.90** | **40.54** |
| Direct Taxes Paid | (5.00) | (8.63) | (1.55) | (3.03) |
| **Net Cash from (Used in) Operating Activities** | **(16.81)** | **27.88** | **13.35** | **37.51** |
| (B) CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Net (Purchase) of Fixed Assets (Including Intangible Assets, CWIP) | (53.69) | (41.02) | (12.00) | (14.50) |
| Net (Purchase) of Current Investments | 10.37 | (51.63) | (10.91) | (7.88) |
| **Net Cash from/(Used in) Investing Activities** | **(43.32)** | **(92.65)** | **(22.91)** | **(22.38)** |
| (C) CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from Issuance of Shares | - | 42.00 | - | - |
| Proceeds From Borrowings | 59.49 | 6.97 | 15.38 | (13.51) |
| Financial Charges | (0.97) | (0.16) | (0.45) | (0.06) |
| **Net Cash from/(Used in) Financing Activities** | **58.52** | **48.81** | **14.93** | **(13.57)** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C)** | **(1.61)** | **(15.96)** | **5.37** | **1.56** |
| **CASH AND CASH EQUIVALENTS, BEGINNING** | **44.63** | **51.26** | **37.65** | **33.74** |
| **CASH AND CASH EQUIVALENTS, END** | **43.02** | **35.30** | **43.02** | **35.30** |

# Thank You

**Disclaimer**

This presentation contains statements which reflect the Management's current views and estimates and could be construed as forward looking in nature. The future involves certain risks and uncertainties that could cause actual results to differ materially from the current views being expressed. Partial risks and uncertainties include such factors as general economic conditions, commodity prices and currency fluctuations, competitive product and pricing pressures, industrial relations and regulatory developments.

# Notes

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Microwave Oven | Built in Oven | Dishwasher | Cooker Hood I Built in Hob | Refrigerator | Top Loader | Front Loader | 100% Clothes Dryer | Air Conditioner

IFB Industries Limited

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