IFB Industries Limited

Q2 Financial Report

Quarter ended 30th September, 2013

Total Income
₹238.38 crore (YoY growth of 1%)

EBDITA (From operation)
₹7.83 crore

EBDITA Margin 3.3%

EPS (Annualised) ₹1.52

RONW (Annualised) 3.9%

ROCE (Annualised) 2.0%

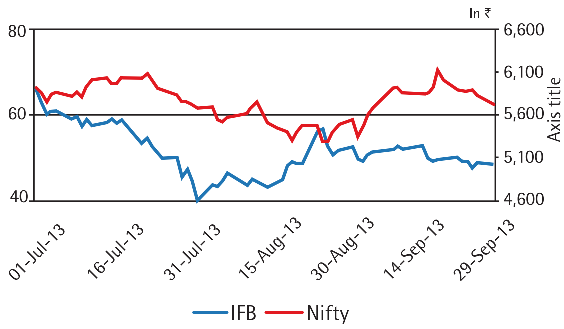
Market Capitalisation
₹196.83 crore (As on 30.09.13/NSE)

Cash & Equivalents (Net)
₹20.64 crore (As on 30.09.13)

EV ₹176.19 crore

EV/EBDITA 5.63

Market Capitalisation/Net Sales 0.21



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 Sep '13, IFB Industries Limited has reported a net sales of ₹222.59 crore, a growth of only 1% over the corresponding quarter of the previous year. There was a sharp fall in EBDITA during the quarter ended Sep '13 compared with the corresponding period of the previous year owing to the difficult operating environment. The steep depreciation of the Indian Rupee has increased the cost of import and was one of the greatest factors impacting the EBDITA margin during the first half of the current year. EBDITA in absolute terms has fallen to ₹7.83 crore from ₹17.26 crore. Depreciation expenses have increased by 24% during the quarter ended Sep '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 30 September, 2013.

Cash flow

During the quarter ended Sep '13, cash generated from operations suffered owing to lower operating profit and inventory build-up because of the upcoming festive season. The inventory has also increased owing to the air conditioners and refrigerators, which will be liquidated in the 3rd and 4th quarters. Furthermore, sales are taking longer than expected owing to placement issues at the dealer end. An amount of ₹41.69 crore was incurred towards capital expenditure during the period ended Sep '13.

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

Outlook

The first half of 2013–14 was marked by a sharp depreciation of the Indian Rupee against all major world currencies. This was the largest factor in the slump in performance in the first half.

The Indian Rupee touched a record low in Aug '13 but recovered in Sep '13 owing to policy measures and the US Federal Reserve's decision to hold off tapering stimulus. The current account deficit improved between Aug '13 and Sep '13 but remains a major cause of concern. Monetary policy was tightened in order to combat inflation and protect the Indian Rupee. This has resulted in further choking of growth.

The automobile market, particularly the four-wheeler and heavy vehicle segments, continued its degrowth during the first half of the current year. Higher vehicle costs, consistent fuel price increases and high interest rates impacted the automobile industry. Shutting down of operation by automobile companies for a considerable number of days in a month has become a trend and this has impacted the sales of our Fine Blanking Division.

The long-term growth story of the Indian automobile industry remained strong. While the four-wheeler and heavy vehicle segments were affected the most owing to the long slowdown, the two-wheeler segment wasn't affected much owing to strong rural demand. IFB Industries Limited continued to focus on the two-wheeler segment and the share of the business from the two-wheeler segment as a percentage of total sales is increasing with each quarter. An excellent monsoon across the country is expected to further spur demand for two-wheelers in the second half of the current year. It may be mentioned here that for the first time more than half of rural expenditure was incurred on non-food items during the current year. This is expected to increase further and augurs well for both appliances and two wheelers.

India's appliances industry is expected to grow moderately during 2013–14 but the growth in

rural and semi-urban areas is expected to be significantly more compared to urban areas owing to higher disposable income. Power shortages, especially in south India, are expected to improve owing to a good monsoon. Most of the annual festivals will fall during the 3rd quarter and it is expected that the Appliances Division will perform better during the second half of the current year compared with the first half. An expected stable exchange rate will also help in improving the margin.

Appliances Division

The Appliances Division sells a wide range of domestic and industrial appliances such as washing machines (domestic and industrial), including dry cleaning and other finishing equipment (like irons etc), microwave ovens, dishwashers (industrial and domestic), clothes dryers, modular kitchens, kitchen appliances (hobs, cooker hoods 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 required for its brand, Indian usage and operating conditions.

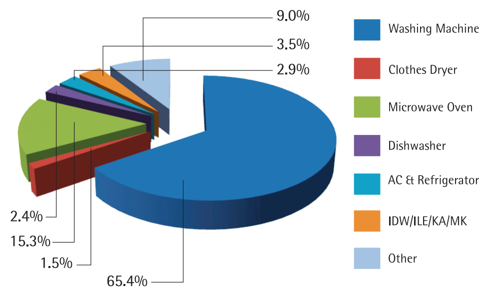
Despite the difficult economic situation, the Appliances Division was able to maintain its revenue compared with the comparative quarter of the previous year. IFB Industries Limited continued to be the market leader in front loader washing machines.

The EBDITA margin during the 2nd quarter of 2013–14 was 2.8% as compared with 7.6% during the corresponding period of the previous year.

The EBDITA margin deteriorated owing to the steep depreciation of the Indian Rupee against major world currencies during Apr '13 to Sep '13 and this has impacted the margin severely. The forex loss during the quarter ended Sep '13 was ₹7.8 crore, resulting in a loss of 3.3% EBDITA margin. During the half year ended Sep '13, losses on account of forex were ₹13.6 crore and this has impacted the EBDITA margin to the extent of 2.9%.

For the quarter ended Sep '13

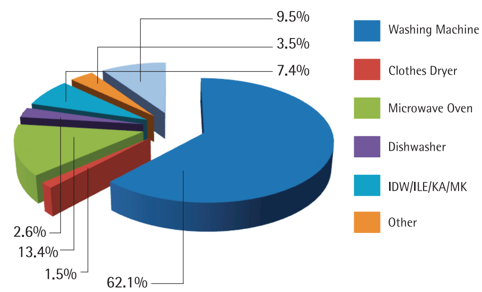
The Appliances Division has recorded a net revenue of ₹194.01 crore for the quarter ended Sep '13. Washing machines continued to be the leading contributor to sales at approximately 65% of total sales.



Product-wise spread in the Appliances Division

For YTD Sep '13

The net sales during the six months ended Sep '13 was ₹389.34 crore. Washing machines and microwaves jointly contributed 76% of total sales.



Product-wise spread in the Appliances Division

Summarised financial performance of the Appliances Division

(₹ in crore)

	Q2('13–'14)	Q2('12–'13)	H1('13–'14)	H1('12–'13)	FY('12–'13)
Revenue	194.01	197.09	389.34	355.47	759.95
EBDITA	5.50	14.94	12.56	24.70	49.15
EBDITA (%)	2.8%	7.6%	3.2%	6.9%	6.5%
EBIT	2.27	12.18	6.41	19.26	37.83
Capital Employed	177.88	155.10	177.88	155.10	152.69
ROCE	5.1%	31.4%	7.2%	24.8%	24.8%

Future outlook and strategy

IFB Points, our exclusive franchise run retail stores, were started around 24 months ago. Additions to the IFB Points were slow during the first half of 2013–14 but we hope to increase their number significantly in the second half. The availability of quality spaces is slowing the process. It may be mentioned that so far we have closed 23 IFB Points owing mainly to a bad selection of location. While we will be scaling up IFB Points, we will also be focusing on profitability. These IFB Points cater to tier 1, tier 2 and tier 3 cities. It is important to note that during the 2nd quarter of the current year approximately 16% of total sales came from these IFB Points, the highest ever. During 2012–13, these IFB Points contributed to 9% of total net sales. Sales from IFB Points are increasing with each quarter. Our strategy of having IFB Points is working well as sales from these outlets are increasing and we will increase them further owing to strong demand from the smaller cities. Sales from IFB Points are more profitable compared with sales through normal retail channels.

Sales through our website were also strong in the first half of this fiscal year and the number of visitors has significantly increased compared to last year. Sales through the website during the first half of 2013–14 were ₹423 lakh with ₹98 lakh recorded in Sep '13.

Sales of additives and accessories are also increasing. Going forward, we expect sales from this segment to grow further.

In order to push sales further, we added 756 new dealers during the first half of 2013–14, which has resulted in sales amounting ₹52 crore.

As on 30 September, 2013, we have a total of 461 service franchisees across India.

Our own call 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—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 have also begun. The focused approach of appointing distributors is yielding results. We have also received enquiries from countries such as Australia, Myanmar and the UK.

EBDITA margin expansion is our major concern. The significant depreciation of the Indian Rupee against our import related currencies has impacted the margin significantly. Price increases have been implemented w.e.f. 1 September, 2013. Expectation of a stable exchange rate will help to protect and enhance the margins. Localisation of components, as mentioned earlier, are in focus and in fact we were able to reduce the raw material consumption as a percentage of sales during the first half of the current year. We expect further savings to accrue on account of these from the 3rd quarter of this fiscal year onwards.

Fine Blanking Division

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

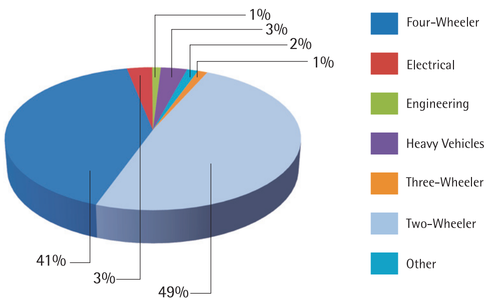
During the quarter and half year ended Sep '13, automobile sales remained weak as a sluggish economy, high consumer price inflation and borrowing costs weighed on buyers' sentiments. The increase in sales during Sep '13 is an aberration as during the corresponding period last year, sales were low owing to a labour strike at one of the major automobile manufacturers. During the quarter, the Indian Rupee depreciated steadily to touch record lows at the end of the Aug '13 but recovered at the end of Sep '13. This forced automobile manufacturers to raise prices, which has further impacted demand.

Indian Ratings and Research Private Limited, an arm of the rating agency Fitch, said wage increases are not in keeping with inflation, hurting consumer spending. The Society of Indian Automobile Manufacturers (SIAM) has sought a stimulus package for the industry. The higher interest rate regime during the period of Apr '13 to Sep '13 has also affected the automobile industry as vehicle sales are dependent on vehicle loans.

Despite the adverse environment, the Fine Blanking Division was successful in improving its performance in the quarter ended Sep '13 compared with the corresponding quarter of the previous year and the previous quarter of the current year.

For the quarter ended Sep '13

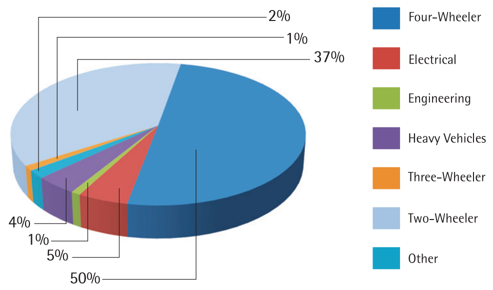
For the quarter ended Sep '13, the four-wheeler segment contributed 49% of revenue compared with 52% during the previous financial year (2012–13). The contribution of the two-wheeler segment has increased to 41% from 32% last year. We were successful in increasing the sales to the two-wheeler segment compared with 2012–13.



Customer segment breakdown

For YTD Sep '13

For the six months ended Sep '13, sales were dominated by four-wheelers and two-wheelers but the percentage of sales to the four-wheeler segment was reduced from a year ago while the sales to the two-wheeler segment were increased.



Customer segment breakdown

The sharp increase in food inflation has prompted consumers to postpone vehicle purchases. This mostly impacts the sales of four-wheelers.

Future outlook and strategy

We are taking several steps to improve the EBDITA margin and ROCE. We are aggressively pursuing more orders from our existing customers as well as new customers with the intention of building a substantial order book. As a strategy, we are focusing more on the two-wheeler segment as it is less sensitive to adverse economic situations. We are focusing on improvement of the product mix and reduction in the numbers of low contributory items. Reduction in discretionary expenditure continues. We expect that the sales volume will increase from the 3rd quarter onwards and this will have a positive impact on the profitability and ROCE. We are also focusing on other industries in order to spread risk.

Summarised financial performance of the Engineering Division

(₹ in crore)

	Q2('13–'14)	Q2('12–'13)	H1('13–'14)	H1('12–'13)	FY('12–'13)
Revenue	42.28	36.21	77.63	76.95	155.96
EBDITA	4.30	3.15	7.06	8.81	17.18
EBDITA (%)	10.2%	8.7%	9.1%	11.4%	11.0%
EBIT	2.45	1.93	3.38	6.51	11.49
Capital Employed	99.83	79.70	99.83	79.70	91.54
ROCE (Annualised)	9.8%	9.7%	6.8%	16.3%	12.6%

INCOME STATEMENT

(₹ in crore)

	Quarter 2		YTD	
	2013–14	2012–13	2013–14	2012–13
Gross Sales	285.60	280.04	561.68	512.96
Less: Excise Duty	19.35	18.04	36.61	34.70
Less: Trade Scheme	43.66	41.36	85.19	71.83
Net Sales	222.59	220.64	439.88	406.43
Service Income	8.97	8.75	17.70	17.04
Other Income	6.82	6.95	13.21	13.43
Total Income	238.38	236.34	470.79	436.90
EBITDA (Before exceptional expense)	7.83	17.26	16.05	30.71
EBITDA Margin	3.3%	7.3%	3.4%	7.0%
Depreciation	5.38	4.34	10.49	8.45
Interest	0.39	0.05	0.52	0.10
PBT (Before exceptional expense)	2.06	12.87	5.04	22.16
Exceptional Expense	-	-	-	-
PBT	2.06	12.87	5.04	22.16
PAT	1.53	9.08	3.66	15.37
PAT Margin	0.6%	3.8%	0.8%	3.5%
No of Shares (in crore)	4.05	4.05	4.05	4.05
Earnings Per Share (₹)	0.38	2.24	0.90	3.99

BALANCE SHEET

(₹ in crore)

	30th Sep, '13	30th Sep, '12
I EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	41.28	41.28
Reserves & Surplus	278.02	258.28
II NON CURRENT LIABILITIES		
Deferred Tax Liabilities (Net)	20.20	16.67
Other Long-term Liabilities	5.75	5.60
Long-term Provisions	29.53	30.77
III CURRENT LIABILITIES		
Short-term Borrowings	53.96	20.48
Trade Payables	141.79	140.37
Other Current Liabilities	52.95	40.62
Short-term Provisions	3.97	3.13
Total	**627.45**	**557.20**
I ASSETS		
Non-current Assets–Fixed assets		
Tangible Assets	206.99	159.16
Intangible Assets	7.16	7.24
Capital Work-in-progress	22.79	12.94
Long-term Loans and Advances	48.29	34.86
Other Non-current Assets	0.02	1.54
II CURRENT ASSETS		
Current Investments	36.95	55.10
Inventories	170.69	141.65
Trade Receivables	69.03	75.02
Cash and Bank Balances	37.65	33.74
Short-term Loans and Advances	27.72	35.82
Other Current Assets	0.16	0.13
Total	**627.45**	**557.20**

KEY RATIOS

	Quarter 2		YTD	
	30th Sep, '13	30th Sep, '12	30th Sep, '13	30th Sep, '12
Earnings Per Share (In ₹)	0.38	2.24	0.90	3.99
Book Value Per Share (In ₹)	78.84	73.97	78.84	73.97
Current Ratio#	1.35	1.67	1.35	1.67
Quick Ratio#	0.68	0.98	0.68	0.98
EBDIT/Total Income (Before exceptional items)	3.3%	7.3%	3.4%	7.0%
Net Profit Margin as % of Total Income	0.6%	3.8%	0.8%	3.5%
Net Worth (₹ in crore)	211.46	191.72	211.46	191.72
RONW (%)—Annualised	3.9%	26.9%	4.8%	23.1%
ROCE on Gross Assets Deployed (%)	1.3%	9.2%	1.6%	8.0%
No of Equity Shares (in crore)	4.05	4.05	4.05	4.05
Average Market Price as on Quarter/Year End	51.35	77.95	64.84	73.42
Market Capitalisation (₹ in crore)	196.83	364.10	196.83	364.10
Headcount (Numbers)	1,455	1,328	1,455	1,328
Total Income per Employee (₹ in lakh)	16.38	17.80	32.36	32.90
PBT per Employee (₹ in lakh)	0.14	0.97	0.35	1.67
Days Sundry Debtors Outstanding	21	24	22	26
Inventory Holding (Days sales)	55	46	55	50

Include investments and secured loans

CASH FLOW STATEMENT

	YTD 30th Sep '13 (₹ in crore)	YTD 30th Sep '12 (₹ in crore)	Quarter ended 30th Sep '13 (₹ in crore)	Quarter ended 30th Sep '12 (₹ in crore)
(A) CASH FLOWS FROM OPERATING ACTIVITIES				
Net Profit Before Tax	5.03	22.16	2.06	12.86
Adjustments for: Depreciation/Amortisation	10.49	8.45	5.38	4.34
Loss on Disposal of Fixed Assets	(0.07)	(0.01)	(0.07)	-
Write off of Fixed Assets	0.02	0.01	0.02	0.01
Write off of Debts/Advances	0.12	0.02	0.03	0.02
Provision for Doubtful Debts and Advances	0.02	0.02	0.02	0.01
Expenses on Employee Stock Purchase Scheme	-	-	-	-
Dividend from Mutual Funds	(0.96)	(0.77)	(0.41)	(0.77)
Net Gain on Sale of Mutual Funds	(0.44)	(0.61)	(0.44)	(0.16)
Appreciation in Value of Investment	(0.07)	0.18	-	
Write Back of Liabilities No Longer Required	(0.23)	(0.27)	(0.13)	(0.27)
Write Back of Provisions No Longer Required	(0.08)	(0.01)	-	0.02
Recovery of Advance Written off in Earlier Years	-	-	-	0.01
Financial Charges	0.52	0.10	0.38	0.10
Operating Profit Before Working Capital Changes	**14.35**	**29.09**	**7.02**	**16.17**
Movement In Working Capital	**(41.06)**	**(33.12)**	**(44.70)**	**(27.86)**
Cash Generated from Operations	**(26.71)**	**(4.03)**	**(37.68)**	**(11.69)**
Direct Taxes Paid	(3.45)	(5.60)	(2.04)	(2.53)
Net Cash from (Used in) Operating Activities	**(30.16)**	**(9.63)**	**(39.72)**	**(14.22)**
(B) CASH FLOWS FROM INVESTING ACTIVITIES				
Net Purchase/Sale of Fixed Assets (Including Intangible Assets, Cwip)	(41.69)	(26.52)	(11.51)	(14.32)
Net Purchase/Sale of Current Investments	21.28	(43.75)	39.75	9.82
Net Cash from/(Used in) Investing Activities	**(20.41)**	**(70.27)**	**28.24**	**(4.50)**
(C) CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Issuance of Shares	-	42.00	-	-
Proceeds From Borrowings	44.11	20.48	8.65	20.48
Financial Charges	(0.52)	(0.10)	(0.38)	(0.06)
Net Cash from/(Used in) Financing Activities	**43.59**	**62.38**	**8.27**	**20.42**
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C)	**(6.98)**	**(17.52)**	**(3.21)**	**1.70**
CASH AND CASH EQUIVALENTS, BEGINNING	**44.63**	**51.26**	**40.86**	**32.04**
CASH AND CASH EQUIVALENTS, END	**37.65**	**33.74**	**37.65**	**33.74**

Thank You

Disclaimer

This presentation contains statements that reflect the management's current views and estimates and could be construed as forward-looking. 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.

Note

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