

A Revolution in Innovative Technology – The V Guard Story

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Abstract: *Forthright and unassuming Kochouseph Chittilappilly could well be described as the Warren Buffett of the East. In 2006, Warren Buffett pledged 85% of his wealth to the Bill and Melinda Gates Foundation, making it one of the largest charitable acts in the history of the US. In 2011, Kochouseph Chittilappilly the unconventional 61-year old founder and Managing Director of the Rs. 726 Crores V-Guard Industries, Indias' biggest manufacturer of voltage stabilizers, amidst protests from family and doctors, donated his kidney to a complete stranger – a poor truck driver from Kottayam. But that's not all that Kochouseph Chittilappilly has pioneered. "Sensing the need for a reliable and quality product with a good after sales backup" for voltage stabilizers, the market for which "was flooded with low quality stabilizers from north India with the exception of brands like Voltas and Keltron", he set up a small manufacturing unit with the help of Rs. 1,00,000 borrowed from his father. V-Guard Industries, an electrical appliances manufacturing company was founded by Kochouseph Chittilappilly in 1977, with just two employees but a burning passion to succeed and a quest for excellence. Since then the company has seen exponential growth, even in turbulent environment. From Rs. 300 crores in 2008-2009, revenues have grown to Rs. 1350 crores in 2012-2013. The company has overcome several challenges, including labour strife, which forced him to shut down his units, to establish a successful company in a state known to be a difficult terrain for entrepreneurs. The objective of this paper is to trace the business strategy and growth of the company and its future prospects. Only when one takes the risk of getting a few scars, does one gain the opportunity of winning stars* **Kochouseph Chittilappilly**

I. CASE:

From a modest Rs 300 crores in 2008-2009, revenues for Kochi-based V-Guard Industries have seen a spectacular growth to Rs. 1350 crores; and profits have catapulted fourfold to Rs. 60 crores. Furthermore, the share of stabilizers, the initial single product offering of V-Guard Industries, is now merely 30%. V-Guard has moved beyond just stabilizers with wires, cables and pump verticals fast gaining equal importance. Additionally, V-Guard now has a pan-India presence, with 25% of its revenues in 2012 – slated to rise to 30% by end of 2013 – coming from outside of Kerala and Chennai. V-Guard Industry has seen a meteoric rise, since it was established in 1977. "Sensing the need for a reliable and quality product with a good after sales backup" for voltage stabilizers, the market for which "was flooded with low quality stabilizers from north India with the exception of brands like Voltas and Keltron", V – Guard Industries was set up by Kochouseph Chittilappilly as a small manufacturing unit with the help of two workers and Rs. 1,00,000 borrowed from his father. With an MSc in Physics and three years experience in an electric and electronic company in Trivandrum, Kochouseph decided to branch out on his own. With financial help from his father, two unskilled workers and help from his friends, he set up a small unit in a one-room tenement in Ernakulum. With the V gleaned from Volt and the logo, a kangaroo, signifying protection, (*Exhibit 1*) V Guard was born. . V-Guard soon became a household name in voltage stabilizers across South India. Established a proprietary business in 1977, V-Guard was incorporated in 1996.

Passion and quest for excellence are the guiding principles that motivated them towards success. It was almost 30 years later, in 2007, when Kochouseph decided to list V-Guards Industries on the Bombay Stock Exchange (BSE). V-Guard fixed the price band of 80 lakh equity shares in the range of Rs. 80-85 share. The IPO got a rating of 3/5 by Crisil. The company had achieved a turnover of Rs 222.27 crore in 2006-07, at CAGR rate of 19.06 per cent over 2002-03. Profit after tax in 2006-07 was Rs. 13.49 crores from Rs. 4899 crores in 2002-03, a CAGR rate of 28.83%. At the time, 40% of its revenues came from stabilizers, its oldest and most profitable business. Additionally, the four southern states accounted for 95% of its revenues. Capital raised from the issue was intended to set up cable manufacturing facilities in Coimbatore and Uttaranchal, enameling plant at Coimbatore, development and pilot productions plants for water heaters, fans and pumps at Himachal Pradesh and Coimbatore, service and distribution centers at Bangalore, Hubli and Vijaywada.

However, top merchant banks were unwilling to handle the Rs. 60 crore IPO. Unsurprisingly, the initial offer in early 2008, failed to attract institutional investors. The day was saved by the retail side of the offering, thanks to oversubscription by investors from Kerala. On the day it was launched, the issue was subscribed 0.85 times, with total bids of 67.96 lakh and 2.83 lakh bids at cut-off price. On the last day, the issue was subscribed 2.62 times. V-Guard finally listed on the NSE at a premium of 9.75% against the issue price (*Exhibit II*). Though V-Guard managed to save its face, two glaring weaknesses became obvious at the outset of the Initial Public Offering (IPO). Competition, such as Finolex and Havells, was almost ten times bigger than V-Guard, which had revenues less than Rs. 200 crores. Secondly, the company was overly dependent on stabilizers, which accounted for 50% of its revenues and 80% of its profits. Mithun Chittilapilly, the 25-year old son, realized that "if we wanted to bring the stock price back to Rs 80, we would need to grow by more than 25 percent quarter-on-quarter and year-on-year." They also realised that 96% of their revenues came from the South markets. This prompted their expansion plans beyond South India and they set up offices outside South and started marketing their products in other markets. In 4 years time these branches reached critical mass and began to contribute significantly to the revenue so much so that 25 % of their revenue was from new markets. This was followed by an impressive growth of 35% (over the increased base achieved during 2010). There are 3 manufacturing clusters, one in Coimbatore, one in Kashipur in Uttarakhand, and one in Himachal Pradesh which are non excise zones. Behind this phenomenal growth is the business acumen and steely resolve of a determined technocrat entrepreneur. With a turnover of INR 13600 million (approx \$225 million), V-guard has seen an almost hundred percent growth during the last one decade (*Exhibit III*).

Mithun Chittilapilly took up the challenge. All company functions were overhauled, majorly sales and marketing. Instead of being responsible for selling all the products, executives were now made in-charge of one product. The market was divided into regions, and Special Business Units (SBUs) were created. From 96% of revenues coming from South India in 2008, the revenues from new markets are now 25%. Despite slowdown, and a fall in the price of metals, V-Guard recorded a growth of about 15% in 2009. V-Guard has never shied from challenges. In the mid eighties, V-Guards rising fortunes caught the eye of the wrong people. The trade union leaders in Kerala started a strike in the V-Guard industries. Mr. Kochouseph felt the demand were unreasonable and refused to bow down to attempts to twist his arm, including threats to kidnap his young school going children. The labor unrest of Kerala, in the 1980s had put V-Guard in doldrums, and almost brought it to the brink of closure. The workers' strike of the 1980s forced Kochouseph to shut down his units, but did not deter his spirit. This is when he began to think of a new business model-distributed production and centralized marketing. He took a quick decision to outsource the manufacturing to Kerala's small enterprises, not plagued by labour issues. He sent his people to train the women in assembling his stabilizer units. What started on an experimental, basis turned out to be one of the best business decisions that he took.

"The decision to engage women groups / cooperatives for production was purely a business strategy as it was more cost effective and I do not have to face any labour problems myself", states Kochouseph matter-of-factly. Currently, there are 22 self-help groups in Kerala and 40 more spread across other Southern states. The concept of 'outsourcing' was still in its nascent stage and V-Guard can claim to be one of the pioneers.

For the results ending September 2013, net revenue from operations has increased by 17.35% from Rs. 632.46 crores to Rs. 742.20 crores. Profit after tax has shown a decrease of 16.82%, from Rs. 38.63 crores to Rs. 32.13 crores. The overall economic slowdown, the political unrest and frequent shut down of markets due to the Telengana issue, improvement in the power conditions and excess rainfall affected the sales of consumer durables. Though Kerala market did well due to the Onam festive season, EMI (Equated monthly Instalments) based purchases, the trend in other parts of the country, are expected to come down. Property construction was also expected to reduce, reducing the demand for wires. In the FY 2013-2014, V-Guards commissioned a Solar Water Heater manufacturing facility, the largest in the country, at Perundurai, Tamil Nadu. It invested Rs 18 crores in the plant, which started production in April 2013, with a capacity to manufacture 90,000 units of solar heaters per year. The estimated market for solar water heaters is Rs. 600 crores, growing at 15-20%. It also launched a new range of water heater, Pebbles and mixer grinder in the Kerala market. Switch gears and induction cook tops have been well received in Kerala. Niket Shah, analyst at Motilal Oswal, estimates "V-Guard's revenue to increase by 27.3 percent and net profit by 28.8 percent over FY12-15" due to its "strong product portfolio, sturdy brand and distribution network" along with increased focus on markets outside South India. V Guard has increased its marketing budget, about Rs. 35 crores, to build brand awareness. According to Mithun Chittilapilly, they spend about 4-5% of their revenues on advertising.

However, according to Mithun Chittilappilly, the company will declare itself truly successful when 75% of its revenues are generated from the northern markets. The company is also exploring opportunities to export solar water heaters to SAARC (South Asian Association for Regional Co-operation) countries in early 2014. The 33-year old Managing Director and Executive Director hopes to make V-Guards a “national” brand, and subsequently take it beyond national boundaries. That is the next big challenge for V-Guard, which the company plans to take head-on.

Exhibit 1 The V-Guard Logo



Exhibit II The Initial Public Offering

OFFER DETAILS		LISTING DAY DATA	
Issue Open Date	18/02/2008	Open	82.00
Issue Close Date	21/02/2008	High	99.00
Listing Date	13/03/2008	Close	73.00
Face Value (Rs.)	10.00	Low	71.00
Offer Price/Range (Rs.)	0.00-0.00	Volume	Rs. 1569758563.00
Issued at (Value)	Premium(72.00)		
Issue Size(Retail)	2660000.00Shares@82.00/share		
Issue Type	Public Issue (Book Building)		
RETURN ON		OFFER PRICE	LISTING PRICE
*Holding Period Return		486.34 %	485.27 %
Holding Period (Days)		2107	2086
Annual Returns		84.25 %	84.91 %
*NOTE : Holding Period Return calculation on basis of 365 Days			

Source: <http://economictimes.indiatimes.com/v-guard-industries-ltd/ipo/companyid-4264.cms>

Exhibit III Net Sales 2009 – 2013

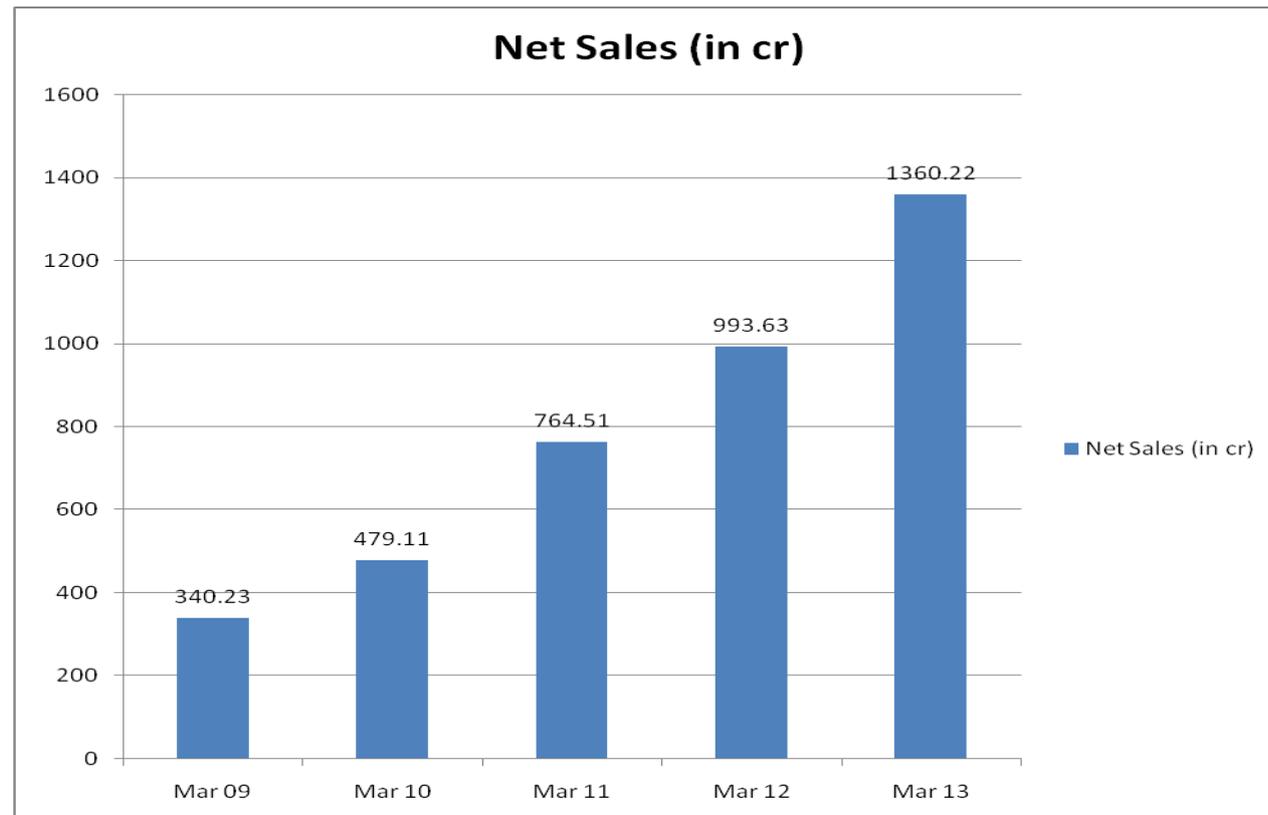


Exhibit IV EBITDA, PBT & PAT

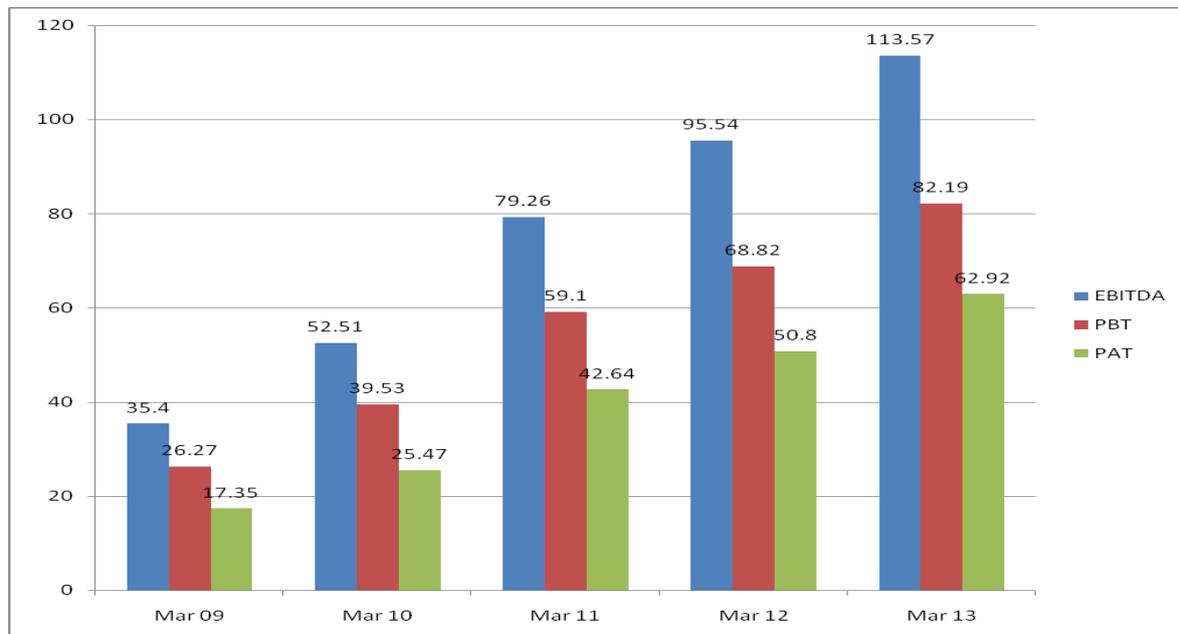
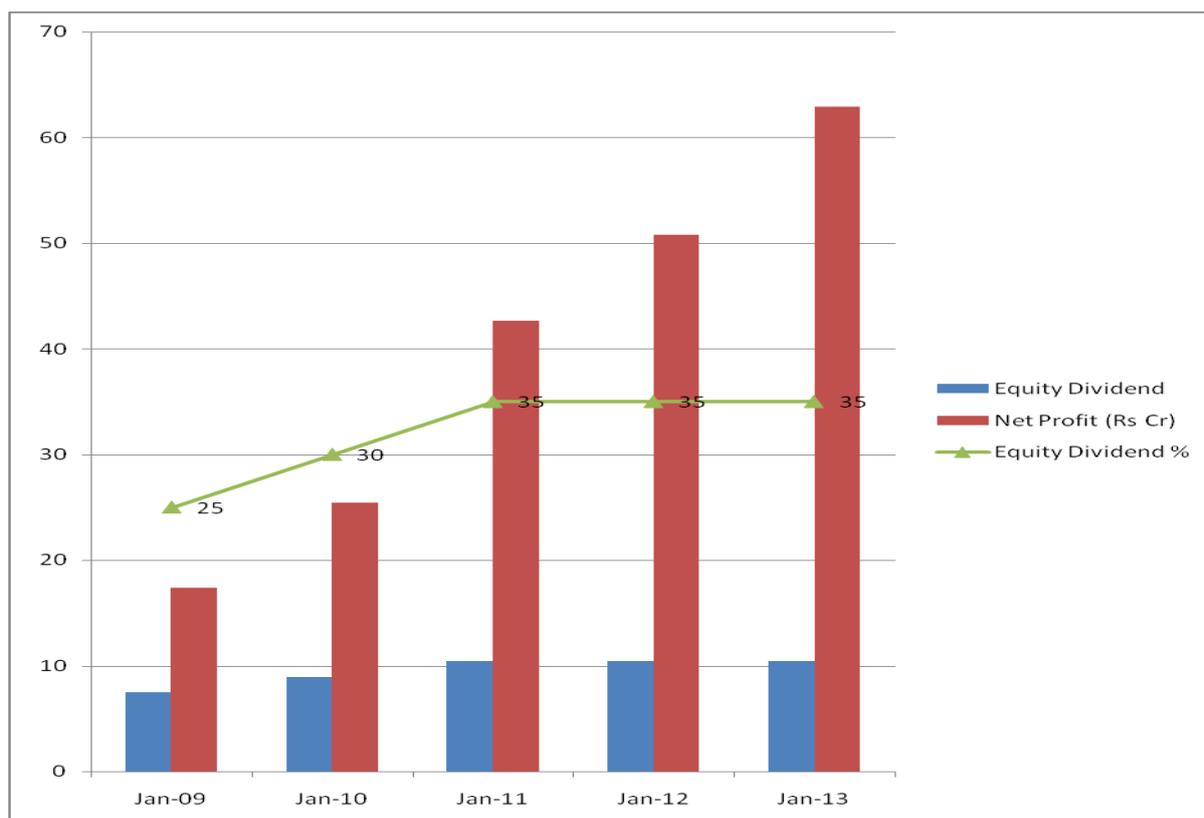


Exhibit V Equity Divident & Net Profit



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