"LEEL Electricals Limited Q4 FY2017 Earnings Conference Call"

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Moderator: Good morning ladies and gentlemen, welcome to the LEEL Electric Limited Q4 FY2017 Earnings Conference Call hosted by Edelweiss Broking Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Salil Utagi from Edelweiss Broking Limited. Thank you and over to you Sir!

Salil Utagi: Thanks Lizaan. Good morning everyone. Welcome to LEEL Electricals Limited Q4 FY2017 results conference call. We have with us from the management, Mr. A K Roy, Whole Time Director, Mr. Filip Eisenreich, MD of overseas subsidiaries, Mr. Sushil Kabra, Group CFO, and Ms. Anita Sharma, Company Secretary of the Company. Without further delay I will now hand over the call to Ms. Anita for her opening remarks. Over to you Anita!

Anita Sharma: Thank you Salil. Dear all, on behalf of the management of LEEL Electricals Limited, I welcome you all to this Q4 FY2017 earning call. I will take you to the financial highlight of the quarter and the year and the review and thereafter Mr. Roy, Mr. Filip and Mr. Kabra would provide the overview of the business during the year and then we will be open up for the question and answer session. We will try to answer all the queries to the extent possible. In case any question remains unanswered due to time constraint we will get back to you soon. Before we take you to the financials we would like to appraise you that the company has completed the sale of its consumer durable business on May 8, 2017 comprising of sale of air conditioners, televisions, washing machines, and other household appliances along with the Lloyd brand and all associated intellectual properties including the brand, logo and the trademarks along with certain specified assets and liabilities including transfer of employees, contracts and approvals relating to this undertaking on a going concern basis to Havells India by way of slump sale. This transaction has been commensurated at an enterprise value of 1550 Crores subject to closing adjustment. No manufacturing facility has been sold as the part of the transaction and the company would continue with its existing business of manufacturing of air conditioners, as OEM suppliers for other brands, package air conditioning for railways and heat exchanger business without its core competencies.

Post the transactions, OEM business would continue to supply room air conditioners as a third party supplier to Havells India for the Lloyd Brand, which would ensure continuity of business and revenue which was currently not captured in the revenue at company level. Pursuant to the transaction the company has changed its name to LEEL Electricals Limited, which was effective from May 23, 2017 on receipt of the fresh certificate of incorporation from the ROC Kanpur. The proceeds from the transaction will be used to bring down the debt and also to invest in higher margin high potential business in the B2B segment and part would be used to reward the shareholders of the company as a special payout. In this context we would like to inform you that the Board of Directors at the meeting held yesterday has approved the payment of one time special dividend of 200% to be paid as interim dividends to the shareholders, out of the deal proceeds, which would amounts to be cash outgo of 97 Crores including the dividend distribution tax. The dividend would be distributed within 30 days from the date of declaration by the board.

The company has adopted the Indian accounting standard from April 1, 2016 and accordingly the financial results for the current period and the corresponding period of the last year has been prepared as per Ind-AS. The figure for the previous year has been restated wherever necessary in line with the Ind-AS adjustment.

Now, I will take you through the key financial highlights for the quarter ended March 2017. During the quarter and the review, the standalone income from operation for the Q4 2017 stood at 1052 Crores as compared to 804 Crores in the corresponding quarter of the last year representing a growth of 31%. The operating profit for the quarter has declined from 109 Crores to 86 Crores, which was predominantly on account of the increase in the commodity prices, which has resulted in the increase of cost and also on account of high payout to the dealers and the distributors to cope with the demonetisation impact. During the quarter, other operating income stood at 3.76 Crores as against 0.68 Crores during the corresponding quarter of the previous year, this pertains to the AMC income coming from the railways. The finance cost during the quarter under review was 39 Crores as against 32 Crores during the corresponding quarter of the previous year. However, the profit before tax and after exception item stood at 36 Crores as against 21 Crores during the corresponding quarter of the previous year registering a remarkable growth. The total comprehensive income after tax stood at 22.53 Crores as against 9.72 Crores in the corresponding quarter of the previous year. The basic earnings per share for the quarter stood at 5.59 as against 2.68 during the corresponding quarter of the previous year.

The financial highlights for the year ended March 31, 2017. During the year ended March 31, 2017, the company reported total operating income of 3024 Crores as compared to 2389 Crores during the last year representing a growth of 27%. The operating profit for the year ended March 2017 grew marginally and stood at 274 Crores as compared to 264 Crores during the last year. During the year under review, other operating income stood at 8.61 Crores as against 0.94 Crores during the previous year. The finance cost during the year and the review increased to 118 Crores as against 105 Crores during the previous year as a result of the working capital borrowings. However, the profit before tax and after exceptional item stood at 119 Crores as against 79 Crores during the previous year. The total comprehensive income after tax stood at 85.49 Crores as against 56.53 Crores during the previous year. Basic earnings per share for the year stood at 21.20 as against 15.61 during the previous year. The board has recommended the final dividend of 1.5 per share of Rs.10 each, which accounts to 15% for the year ended March 31, 2017.

On consolidated basis for the year ended March 31, 2017. The consolidated total income from operation for the year ended March 31, 2017 stood at 3376 Crores as compared to 2729 Crores during the previous year registering growth of 24%. The operating profit for the year was marginally higher to 272 Crores as compared to 262 Crores in the previous year. The consolidated profit before tax and after exceptional item stood at 104 Crores as compared to 55 Crores during the previous year. The total comprehensive income after tax stood at 70 Crores as against 42 Crores during the previous year. The segmental performance during the year.

The consumer durable segment: The segment revenue and the results from this segment stood at 1885 Crores and 120 Crores during the year as against 1337 Crores and 105 Crores during the previous year.

The OEM and the packaged air conditioning segment: The segment revenue and the results stood at 936 Crores and 60 Crores as against 880 Crores and 50 Crores respectively during the last year. During the year, the company has developed and launched new range of highly efficient Eco-friendly inverter ACs meeting with 2018 energy efficiency norms for residential segment. Mr. Roy will take us through the segment in detail.

Heat exchangers and the component segment: The segment revenue and the results stood at 604 Crores and 66 Crores as compared to 611 Crores and 82 Crores respectively during the corresponding quarter of the previous year. This segment caters to the manufacturing of heat exchangers and the evaporator coil for the heating ventilation and the air conditioning industry and copper and brass heat exchangers for the railways, heavy automobiles and other industrial applications and the component business of sheet metal.

International presence: The wholly owned subsidiary has reported a total income of 50.44 million and EBITDA of 0.51 million. I would now request Mr. Roy to take us through the Indian operations. Over to you Sir!

A K Roy: Good morning everybody in the call. I will take to through the overall business and particularly OEM business what we are doing presently. As far as the OEM business is concerned, we have met our expectations better than what we planned and in terms of supplies and the new customers; our prospect seems to be much better than what it was. The main reason is we were doing the Lloyd Brand and Lloyd was our own brand and some of the bigger customers used to think that in the market place we are competing with them and they were not very keen or very interested to do business with our OEM keeping this factor in mind. There are some of the customers who have also openly told us, but now after sale of Lloyd Brand we expect all those customers to work with us closely and that will enhance our business prospects as far as OEM business is concerned. OEM business had been supplying the products to almost all major Indian brands who are selling room air conditioners in the India and also we have a good presence now in overseas market where we are exporting the product in Korean Brands to neighbouring countries like Nepal, Sri Lanka, and entire Middle East including Iraq and also do a couple of African countries. The products have been developed by us locally in India and got international accreditation that is safety certification, EMI/EMC certification as also demarked, which is necessary for selling the products in the gulf market. Successfully our products got approved and are doing pretty well and we are getting repeat orders from almost all the customers. This year exports we have booked for another two to three months for our customers and we expect the business to take on futures and apart from these two segments we also want to enter in European market over the next one to two years' time by selling the air conditioners in OEM brands to their collective months requirement.

As far as the Indian standards are concerned, it is quite challenging in terms of requirement and we are meeting the requirement of the Indian Markets in terms of developing products for Indian markets. The products have been well developed because the standards are getting quite strong in terms of 2018 requirement on January 31, 2018 and we have almost ready with almost all the products meeting the requirement of 2018. The new product that is inverter air conditioners have been developed by us successfully and has been put in Indian market and it is quite encouraging that we are getting repeat orders from the customers and the inverter ACs are doing pretty well in Indian market. The product development activity is going in a very fast pace because challengers are too many. The global business is changing in terms of energy conservation, the change of refrigerant because of Montreal agreement globally only two refrigerants, which is mostly used in the air conditioner getting phased out and new refrigerants are coming. The new refrigerants are 401A, R32, R290 are getting popular and we have decided to go for R32 refrigerant effective January 18, 2018 as one of the refrigerant to increase the efficiency of these products and also meeting the global environmental requirement. Both of the products are underdevelopment and partly have been developed and we still have couple of months to put the product in the Indian market as far as new refrigerant is concerned.

The energy efficiency will play a vital role for future in India and global because almost all the global countries are focusing on energy efficiency for future requirement of the air conditioners and accordingly the products are getting developed and we are updating ourselves in terms of R&D and newer products, which will meet the expectations or better than the expectations. The invertor is one of them where power saving is to the extent of 50% to 60% in the normal full-term use of the inverter air conditioner in office use, shop use, restaurants, hospitals, nursing homes as well as residential. This is how it is going on. The plant capacities have also getting augmented and getting increased seeing the future requirement as the market is going pretty fast in terms of overall requirement of the room air conditioners in India. The penetration level in India is still also very low as far as room air conditioner is concerned and we expect that the penetration level to go faster and faster in times to come because of power availability is getting improve, power quality is getting improve and the per capita income of the Indian residents are increasing faster than it was in the past, so that will definitely enhance the residential sector of air conditioner apart from the new rounds upcoming, which Government of India is bringing in terms of the houses under construction, which were held up for quite many years will come out it seems that and that will definitely give boost to the residential air conditioning requirement because once these houses are offered to public the each house and the builder will need to air condition the houses and buildings, which are under construction are held up because of XYZ reasons and now NBC coming in and government throwing proposals to the builders to work along with NBCC to build those houses and construct those housing. That will surely bring the requirement of the air conditioners in particularly room air conditioners in Indian environment in a better way and give us opportunity to produce more to our customers.

There have been challenges also in the business like the raw material had been increasing in last quarter, the government started supporting the steel industry by way of adding all kind of duties, which is possible to add in states like enhancing the base price of the steel to add for custom duty enhancing the antidumping duty on the steel and also save our duty. These are the only three possible duties, which government can add on any imported products, which has been added in steel and that has given support to steel industry, but cost of imported material has gone up for may other industries, which is a big challenge. Right from November mid onwards, the steel prices started increasing and it increased drastically and very high to the extent of 20% by the time we came to March 2017. Similarly, the nonferrous material that is copper started increasing from mid November onwards and came to again very high by March that is increase of approximately 27% to 28% in the LME global market as far as copper is concerned. Copper is used extensively in the room air conditioning for making heat exchangers and also many other components, which are part of copper like motor is there, compressor is there, which is copper is input in that, the cables and harnesses are there where copper is input in that. Same was the case of aluminium, which is an input material for room air conditioner building for heat exchangers and some other components, there the increase had been quite high again about 20% increase at the LME global market for aluminium, which has impacted partly the cost, increase of our input cost. Same was the case for plastic material that is SAPS, ABS, and also the polystyrene, which is used in room air conditioner the prices were increased, so these all impacted badly to the input cost and partly had been passed on to the customers, partly we have to retain because we are very near to the season and the season was on and our prices are normally settled as OEM quarterly basis with the customers and we could not pass on the whole part of it, which has impacted the cost of material in the last quarter of last financial year.

The capacities are getting enhanced because we see better prospects in terms of going up. As far as large air conditioners are concerned, the business remains with us for the last three years and sort of making earlier it was leaving the company and now it will be sold to Havells and we have the information from Havells that for the next year the business will be better with them in terms of supplying Lloyd Brand air conditioners. The Havells set for big plans for increasing the Indian postioning of the product in terms of volumes, market share and that should give growth to us also for increasing the supplies to Lloyd for the next three to four years every year. The plant capacities, machineries, equipments are getting augmented, added, balanced and some of the equipments are we are adding for enhancing the quantity of production, taking care of the new regulations equipments are getting added and also we have time to add any two shifts that is night shift utilization on the factory so that more and more products can be made in seasonal time that is right from January till about May. Till now we have been operating the dayshifts, but now we are planing to operate in nightshifts also, almost all the shops and the factories partially so that the business numbers can be more and the factory works one full shift and the second shift also works about 50%. After adding the equipment machinery and balancing equipment machinery, which is already on we should be able to enhance the factory capacities to a large extent meeting the expectation of the customers in terms of volume in time to come. So this is about OEM business what I have indicated to you. Now I will transfer to Mr. Kabra who will take you around for railway businesses what we are getting in other locations.

Sushil Kabra: Thank you Mr. Roy. Good morning participants. I will now take it to railway, metro as well as defence segment. The company has strong presence in package air conditioning and oil cooler segment of Indian Railways. Since the company has captive facility for sheet metal fabrication and heat exchanger coils, which gives an added advantage and control over quality over such critical components. In future it looks quite promising since currently only 40% of Indian Railway coaches are built air condition, which is likely to be increased to about 60% over the next few years. This definitely gives an interesting opportunity to the company. Now, I will speak about our foray into metro segment. The company has made foray into manufacturing of HVAC to be used by DMRC through technology transfer with Toshiba, Japan. We got supply for about 350 units of HVAC to DMRC and order is valued about in excess of 70 Crores, which will be completed within the current calender year. Access to Toshiba technology will help company into bidding favourably for metro projects for times to come and also Make in India initiative Government of India would further strengthen future prospects in the segment. Now on the defence segment, Indian corporates are set to bag large defence orders and then Make in India program of Government of India. This will bring additional opportunity for participating into defence segment through our existing product portfolio.

In this regard, we would like to bring to your attention of our foray into aviation segment thereby we are L1 in helicopter oil cooler segment and oil coolers for about 100 helicopters will be supplied by us. So this will be an interesting slot for the company thereby we will be participating into the initial segment. We are already supplying HVAC air conditioning unit for heavy vehicle factory, which is an ongoing business and also we are participating into other different equipment opportunities, which are presenting themselves, so in this regard we are also looking for our other opportunities through participating along with other bigger players either through joint venture. Thank you so much.

Anita Sharma: Thank you Mr. Roy and thank you Mr. Kabra. I would request Mr. Filip to take us quickly on the overseas subsidiary. Over to you Filip!

Filip Eisenreich: Thank you Anita. Good morning everybody. I will try to be as quick as possible. We heard the financial summary so let me just add few comments to the business highlights of last financial year mostly here in Europe. The main challenge we faced during the whole year was low sales volume as we already mentioned in the previous conference call. Low sales volumes to the existing customers, immaturity of markets and segments. In average, the volumes were about 10% down from previous year, which apparently negatively impacted profitability and several actions must have been taken during the year to address the situation. We play special focus on acquisition of new customers. We did also important organizational changes in the sales management roles, and test results of these sections materialized during the last quarter of the year. For example since January we kicked off large deliveries of heat exchangers to customer Schneider Electric, big player in the field. In railway HVAC we have been awarded first contract from customer PESA, which is a leading player in Central European region. As an outcome order book of the companies has grown by about □3 million during the last three months, which indicates that this year's summer season should be stronger than the one a year ago.

Second highlight of the year was process of reduction of cost. These decreased by roughly □0.5 million mainly things to downsizing actions in Janka. Beside a fixed cost we have seen also slight improvement of variable margin, things to the actions taken in procurement, engineering, and labour productivity; however, that potential has not been utilized so far fully and more actions will be taken in coming weeks.

As last point, during recent months we have initiated process of a gradual transformation of the business strategy towards more specialized market segment like energy, industry where the market seems to be less competitive and our margins are generally higher. In the coming months, we are going to give more sales focus to these segments and we also need to adopt internal organization to support this overall goal. As part of this activity, we would also like to cooperate more tightly with our parent company to explore possible opportunities in India as we believe there are huge prospects particularly in energy segment where we hold unique know-how certification experience and all these could be brought to India and offered to the market with the help of other holding companies. So in actual these are the main tasks and objectives we are working now and in coming weeks. Thank you.

Anita Sharma: Thank you Filip. Can we have the questions please?

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: Thanks for taking my question and congratulations for finally completing the deal. My first question is on the uses of cash from the deal proceeds. Can you just help us sort of walk through step by step how the 1550 Crores has been used, taxes, working capital, debt, dividends, how much cash is left over, capex, etc.?

Anita Sharma: Out of the 1550 Crores, there would be long-term capital gain tax of 23%, which could be in the range of 300- 50 Crores, partly will be reducing the working capital loan, we are yet to work on the figures. The entire term loan of roughly 90 Crores would be paid off, around 100 Crores is being distributed to the shareholders as a special dividend, and the balance would be invested in the B2B segment of the company for augmentation of the existing capacities

Gautam Bahal: Can you give me an idea, how much working capital debt is left over in the LEEL entity right now?

Anita Sharma: As of March'17, the working capital loan outstanding was roughly 1000 Crores.

Gautam Bahal: And the plan is to pay of most of that or not?

Anita Sharma: we will be paying major chunk of it. We are yet to work on the numbers because the part of the working capital debt would still remain in the business.

Gautam Bahal: But can you give us a sort of sense of how much of that will go on that is a big number right, your market capital 1000 Crores and that working capital let us say 1000 Crores also?

Anita Sharma: Big value, that would be a major chunk, we will be reducing a major chunk out of it, so we will come to know in the coming quarter results.

Gautam Bahal: So we will continue in the September quarter results?

Anita Sharma: Yes.

Gautam Bahal: Just from a shareholder perspective that is a very important thing so I would urge you to give us clarity on that soon if you can?

Anita Sharma: definitely because we are just taking the proposals with the banks for the reduction of the working capital loans and we are working on the figures now.

Gautam Bahal: One more question, I will jump back in the queue. Is the EBITDA for FY2018 on the leftover entity, there is a lot of moving parts as we just heard in the statement, can you give us a sense of what is the remaining EBITDA power of the company is because we have this extra EBITDA coming back from Havells in terms of OEM manufacturing?

Anita Sharma: EBITDA for the residual business which is a B2B is in the range of 8% to 10%

Gautam Bahal: How much is the Havells EBITDA coming back to us in terms of manufacturing for them?

Anita Sharma: It would be arms length pricing in line with other OEM customers.

Gautam Bahal: Just finally, how much is that in terms of, is that 20 Crores EBITDA, is it 30 Crores just to get a sense?

Anita Sharma: As of now we cannot quantify because it all depends upon the offtake

Gautam Bahal: Thank you.

Anita Sharma: Thank you. Can we have the next question please?

Moderator: Thank you. The next question is from the line of Sureddi KR from Mergers India Info.com. Please go ahead.

Sureddi KR: Congratulations for reasonably good set of quarterly numbers. My question is relates to the intended object of sale of the ED business is creation of shareholder value from the date of announcement of the deal till today almost the market remain 400 Crores of market capitalization has been eroded if you take 320 to 220, so how are you compensating shareholder, where is the value for shareholder, anyhow thanks for the special dividend of Rs.20s, but 400 Crores is what we have lost I mean as a shareholder?

Anita Sharma: Yes Mr. Reddy, I would like to answer your question. See as you know that the margin has been a big concern for us in the consumer business. First of all I would take you through the reasons for why we had divested the entire stake in the consumer business because consumer business the margins are as you know has been around 6% and beyond the point we were not able to expand the margin on the ACs, which basically accounted to roughly 70% of the sale of the consumer business as we were competing with the big players who had been into this business for the case. Also the business requires growth capital to sustain at the current level and also the investment in the back in facility, the technology, then investment in brand building, the new product introduction all which require the growth capital and with the already stretched balance sheet, it was not a viable proposition to raise debt in view of the margins already being very thin. Also the fact that consumer durable business was sourcing major products from China and neighboring countries and there was too much dependence on trading model and was exposed to substantial forex loss, so all these factors accounted that there was need for investment of growth capital to meet the demand for higher volumes and with that intent management had engaged EY. As I mentioned earlier, major chunk would be used to pay off the debt so as to downsize the balance sheet,.

Sureddi KR: Actually your debt is mostly working capital debt, that extent you have the inventory and receivable points, so in that sense it is not really leverage, we have no issue into sale of it, it is a wise decision from my point of view as a shareholder, but the submission is if you have a capital the capitalization erosion of almost 400 Crores that is incumbent at least to consider a buyback because you will be left with substantial cash in spite of part of working capital is repaid still you have the inventory stock so this Rs.20 is not adequate so my submission is kindly consider that so that continuous erosion of market capitalization is not a good sign so the entire exercise is done in the interest of the shareholder.

Anita Sharma: But, Mr. Reddy, let me clarify to you there would not be a substantial cash left in the book as I already explained to the gentlemen who had asked the questions prior to you regarding the utilization of the proceeds. The major chunk would be used to pay off the debt. There is a capital gain tax of 23% on to it, 100 Crores is being distributed to the shareholder, which is 200% of the dividend payout and the balance would be retained for investing in the residual business.

Sureddi KR: See the figures, which you have add up almost about 500 Crores, 350 Crores your capital gain, 90 Crores dividend, 100 Crores spend, see all that is add up to around 500 Crores still you are left with another 1000 Crores that is a big chunk of the money.

Anita Sharma: So from the 1000 Crores we have to pay off the working capital debt which is also associated even with the B2B business as well.

Sureddi KR: Then you consider it because it is working practicability, the term loan I can understand that you are repaying the debt, working capital is a continuous cycle, you can take a call with one point of you because end of the day it is shareholder wealth creation is for which any public company’s wish is. I appreciate that. My last query on this is the foreign subsidiaries are incurring continuous losses even for the last two year we are given we have restructuring plan, reengineering stuff like that we are hearing for quite sometime and they should a hard look of where we are heading into?

Anita Sharma: No, exactly as we know even this time it is like cash positive. We do understand that the losses is coming from the Janka, which has been acquired 5-6 years back where the investment was marginal investment by the company, but the company is taking proactive steps to turn around. Earlier it was into the air handling unit so now the new products are being introduced, it is catering to the new markets, as Filip has already briefed in his opening remarks

Sureddi KR: Anyhow Filip was giving the same answer for quite sometime turnaround. My last query is your employee cost is substantially increased from 20 Crores to 31 Crores, any particular reason please?

Anita Sharma: That is employee benefit cost, you are looking at the sequential level?

Sureddi KR: Yes, at the quarter 31.19 Crores, earlier it was 20.94, audited figure.

Anita Sharma: Yes, of course you have to see the employee cost, you have to see on the basis of the turnover, so there is a fixed manpower cost as well as there is the cost associated with the contractors, when there is a high demand, if you see December quarter is basically a lean quarter for the B2B business because you would not find much demand coming for the heat exchangers and the AC because that is an off season, whereas as compared to the sequential quarter this quarter there is a high growth coming in the OEM business and the heat exchanger business and partly because of the increase in the revenue coming from the consumer business wherein the more staff has been deployed.

Sureddi KR: Because it is a 48% increase, anyhow I appreciate your reply. Thank you.

Anita Sharma: Thank you. Can we have the next question?

Moderator: Thank you. The next question is from the line of Alok Goel an Individual Investor. Please go ahead.

Alok Goel: Just want simple question out of 1550 Crores that you have received, how much will be finally credited to reserves? What is the profit element in this, I mean 350 Crores is income tax, so balance 1200 Crores will go into reserves?

Sushil Kabra: We are yet to arrive at the profit element as these are subject to closing adjustments which is underway.

Alok Goel: No, the date is May 8, 2017, that has already closed, we are now on May 31, 2017.

Sushil Kabra: Let me tell that. As of that day we had to prepare the closing financials, which need to be audited and then it get finally established, so whatever adjustments happens because of that subject to that adjustment whatever residual figure will definitely get reflected as the reserves.

Alok Goel: So, in other words as a thumb rule 1200 Crores will get credited to reserves and may be 50 Crores less or 50 Crores whatever there am I right in making that statement?

Sushil Kabra: We cannot comment on that at the moment.

Moderator: Thank you. The next question is from the line of Himesh Shah an Individual Investor. Please go ahead.

Himesh Shah: Yes Sir, I had a concern so is the deal got executed on May 8, 2017, am I right?

Anita Sharma: Yes.

Himesh Shah: I just want to ask a question about the expansion program, so where are we looking to expand, are we looking for adding new facilities, new factories or something, new plants somewhere, where do you see the growth coming in the next two or three years?

A K Roy: As I briefed you earlier your current capacities in our present plant are fully built in North India by way of adding balancing equipment and adding new equipment as well, so this will take our plant capacities about 25% more than what we are doing presently and also we are going to add the nightshift that is to increase the production and balance in the production.

Himesh Shah: So are you confident about the demand coming in?

A K Roy: Yes, demand is surely coming in, you can see the growth coming in, in the industry of room air conditioning, this is 15% to 20% growth is eminent, which is coming and it will come in future. I briefed to you that power availability is increasing, power quality is increasing, per capita income is going up, people are looking for more comfort business and because of that the AC business is increasing and also the penetration level in our company for room air conditioning is very low as compared to the other global companies who are similar in nature like we are at only 3% or 3.5% penetration of room air conditioners, surely it has to go up in time to come.

Himesh Shah: Sir, to what extent will the employee benefit expense reduce because consumer durable segment transferred to Havells then employee cost should come down for the leftover business?

A K Roy: That overall employee cost will surely come down because consumer durables business has gone out, so that part of the employee cost, which may be around 40% to 50% of the total employee cost will come down in the whole year.

Himesh Shah: And on the marketing expenses?

A K Roy: Similar marketing expenses will also go down drastically because the consumer durable business spend was more in marketing.

Himesh Shah: And up to the margin front, when do you expect margins to normalize like the copper prices and steel prices are up when do you expect it to normalize?

A K Roy: We can see a trend now, the prices are going down now it started going down a bit and bit and we hope that this quarter and next quarter the prices should again come down to stable, it will not be what it was last year, but surely something should come down because a bit reduction in taming down of raw material price, which have been from last one month now.

Himesh Shah: Thank you Sir and I would just request you to pay off majority portion of the debt on this buyback and this is a good option so that the bottomline will genuinely expand because that is the main concern, bottomline is not expanding because of the debt.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead. As there is no response from the current participant we will move on to the next that is from the line of Anoop Agarwal from Cogencis Information Services Ltd. Please go ahead.

Anoop Agarwal: Thank you for taking my question, I just want to check whether any other details besides Havells for the business madam?

Anita Sharma: Sorry your voice is not audible. Can you be a bit louder?

Anoop Agarwal: I just wanted to check whether any other details or any other status for the business that eventually went with Havells?

Moderator: Sir, the line of Anoop Agarwal has dropped off. We will move on to the next question that is from the line of Pawan Parekh from HDFC Securities. Please go ahead.

Pawan Parekh: First one, what is the capex you are looking at for the next two years now?

Anita Sharma: We are yet to chart out the plan for that.

Pawan Parekh: So, again yet that repayment plans are continuing to what capex you do right and so by when do you actually plan to finalize this?

Anita Sharma: That would be in the next two to three months.

Pawan Parekh: madam if you could give some indication in terms of what is your capacity in terms of how many million or may be lakh ACs you can manufacture?

Anita Sharma: Yes, surely Mr. Roy will answer this.

A K Roy: The present plant capacity is around 7 lakhs and with the enhanced capacity what we have planned to do by way of balancing the equipment and adding equipment it can go about 9 to 10 lakhs.

Pawan Parekh: When we say this 9 to 10 lakh it is essentially all right from compressors to coils and everything in manufacture inhouse?

A K Roy: No, compressors are not manufactured inhouse, coils are surely manufactured inhouse, coils and all plastic parts are made inhouse, also all sheet metal, powder coating, and all copper fitting and parts are made inhouse, but compressors are surely purchased from outside and that is the thing, which everybody is doing it because compressors has a different technology and the volume of business what we are doing that does not permit to invest on compressors and start making compressor because we need at least 32 to 40 lakhs of capacity to build compressor for that we do not have facility. India has got now one compressor company already setup in Ahmedabad by the name of Highly-Hitachi, their capacity is about 2 million and other compressor companies are going to come by 2018 last quarter, which will be another about 3 million, so we can say about 50 lakhs of compressors will be made in India, which presently is being sourced from other countries and things is special technology. The only compressor manufactures are investing presently and the other Indian companies like LG and all that are also exploring to make compressor in India. We have started doing the indoor unit, which is a part of the split air conditioners from last quarter of last year and that we have taken repeatedly as we hope that in split air conditioner indoor is integral part of the air conditioners and which earlier we have been importing from foreign countries, but last quarter of last year after getting the moulds and tools made we started doing it and that is giving a very good result to us and that also helps us in terms of developing the air conditioner with new energy efficiency and also inverter air conditioner, so our plans are to invest on indoor unit in time to come so that we become self-sufficient as far as split air conditioner is concerned in Indian market.

Pawan Parekh: Can you just repeat the name of the compressor company in Ahmedabad?

A K Roy: That is Highly, which is a joint venture they had in China with Hitachi of Japan, so they have setup a factory in Ahmedabad, I think it was two years back and now they are about 2 million capacity compressor in India, although India needs about 55 lakhs to 60 lakhs compressors, so this company's capacity presently 2 million, it was 1.2 million one year back and full capacity of 2 million is going to come by October this year.

Pawan Parekh: Sir, we understand the leading companies like Voltas, Blue Star, LG, they also have their assembly units in India wherein the compressor, which is the key component is imported a substantial part of their products is also manufactured inhouse, in the B2B business how are you different from these players?

A K Roy: See as far as the compressor is concerned all of them are buying from outside, none of them are making compressor here including LG or Voltas or any other Indian company, the compressor source remains more or less similar like there are three or four global sources who are doing compressors from them an LG, Voltas or any other Indian company they also source from them as far as compressor is concerned. We have much added advantage in terms of production capability, capacity and productivity because all critical components are made within our factory, so we do not have the cost of transportation for bringing material in the factory or packaging cost bringing from outside or even taxation part of it. We have integrated ourselves with almost all the critical components except compressor or motors, which we do inhouse, so that edge us in terms of benefit of productivity, price, quality, and cost, almost all the interchanges are made by us in our factory whereas LG if you talk about they do not make it they source from outside, even Voltas, so I do not want to name these companies because it is not good, but yes the kind of integration what we have within one rope is none of them has got. Of course we will get the advantage in terms of making components inhouse and get advantage of that.

Pawan Parekh: Just two things more, so you manufacture both split and window ACs, it is only split now?

A K Roy: Yes, we do window AC as well as split air conditioner.

Pawan Parekh: Sir, how do you see GST impacting you, your business?

A K Roy: GST still so many doubts are there and as far as our business is concerned we are in excise free area and the Government of India is going to give us refund of the GST part and state government is also considering and I think hopefully in another week or 10 days time state government should also give part of GST different bag and try to bring to us in the same level what we were previously as far as excise duty assumption was concerned, so that central government has already announced 58% refund of the GST and the state government has to give 42%, which is under consideration of the state government and we hope in about a week time or 10 days time that should come out, so benefit to the factories will remain still same in GST.

Pawan Parekh: Sir, just want to understand if I look at your balance sheet the inventory looks pretty high in the sense 3000 odd Crores turnover we have an inventory of about say 1000 odd Crores, any specific reason why we actually require inventory of more than 90 days?

Anita Sharma: the business model of B2B business have high level of inventory as major raw materials like copper, steel and aluminum are imported which involves high lead time

Pawan Parekh: We would really appreciate may be in the next call you could give an indicative say EBITDA or PAT of FY20127 excluding the business that we sold so that at least we could come to know FY2107 base year what is the profitability in the base year of the continuing operations.

Anita Sharma: Surely we will do that.

Pawan Parekh: Sure thank you Madam!

Anita Sharma: Can we have the last question now?

Moderator: Sure. We will take the next question from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: Thank you for the opportunity. Just wanted one clarification if I see the standalone number for the full year, we have got OEM package 936 Crores and heat exchanger at 604 Crores and intersegment revenue of 411, so now after this consumer durable business is sold, if we had to consider revenue for FY2017, it would have been 936 plus 604 because intersegment would accrue to the company as the revenue?

Anita Sharma: It would be the growth on that segment.

Nikunj Doshi: So basically around 1500 odd Crores is the revenue?

Anita Sharma: Would be for the last year, yes.

Nikunj Doshi: Yes for the last year and you are saying that we will have around 11% EBIT?

Anita Sharma: 10% to 11%,

Nikunj Doshi: Ballpark number, so I think this year if we have to assume numbers, it is better to assume base at 1500 Crores for last year and then assume growth on that, am I right?

Anita Sharma: Exactly, you are right.

Nikunj Doshi: Thanks.

Anita Sharma: Thank you.

Moderator: Thank you. Ladies and gentlemen that is the last question. I now hand the conference over to Mr. Salil Utagi for his closing comments.

Salil Utagi: Thanks everyone. Thank you Anita. Thank you Mr. Roy.

Anita Sharma: Thank you everyone.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Broking Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.