



“Lloyd Electric and Engineering Limited Q3 FY 2016 Earnings Conference Call”

February 15, 2016



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Moderator: Ladies and gentlemen, good day and welcome to the Lloyd Electric and Engineering Limited Q3 FY 2016 Earnings Conference Call, hosted by Systematix Shares & Stocks 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 an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now like to hand the conference over to Mr. Pankaj Karde from Systematix Shares & Stocks. Thank you and over to you Sir!

Pankaj Karde: Good evening everybody. Welcome to the Q3 FY 2016 results conference call of Lloyd Electric and Engineering hosted by Systematix Shares & Stocks. The management is represented by Mr. Nipun Singhal, Whole Time Director and CEO, Consumer Durables, Mr. Mukat Sharma, Whole Time Director and CFO, Mr. Filip Eisenreich, he is the MD of overseas subsidiaries that is LCE and Janka and Ms. Anita Sharma, the Company Secretary. I now hand over the call to Anita for financial overview. Over to you Anita!

Anita Sharma: Thanks Pankaj. Very good evening to all of you and thanks for joining us to this Q3 FY 2016 concall. I will take you briefly through the financial performance during the quarter and the nine months and then later on Mr. Nipun Singhal will provide you the overview on the Indian business and followed by Mr. Filip on the overseas subsidiary.

The standalone financial performance for Q3 FY 2016: The total revenue increased by 17% to Rs. 443 Crores as compared to 378 Crores in Q3 FY 2015 due to the tremendous growth in the B2C business of the company. Other expenses increased substantially by 36% to 36.30 Crores as against 26.63 Crores during the same period last year. The increase is on account of foreign currency fluctuation loss of 12.95 Crores incurred during the quarter as compared to during the same period last year. The profit before tax and operating income for the quarter stood at Rs. 38.93 Crores as compared to 38.22 Crores in Q3 FY 2015 which is at par with the last year. The financial expenses increased by 11% to 27.72 Crores as compared to 24.92 Crores during Q3 FY 2015. Consequently, the profit after tax reduced drastically by 47% to 2.74 Crores from 5.18 Crores in Q3 FY 2015.

The standalone financial performance for nine months ended December 31, 2015: For the nine months ended December 31, 2015, company reported total income from operations of 1572.60 Crores as compared to 1216.65 Crores over the same period in the previous year reflecting a growth of 29%. The operating profit increased significantly by 22% to 155.19 Crores as compared to 126.47 Crores in Q3 FY 2016. The financial expenses increased marginally by 7% to 72.76 Crores as compared to 67.79 Crores during the same period last year. Consequently, the profit after tax grew significantly by 50% to 47.43 Crores from 31.59 Crores during the same period last year. I will hand over the call to Mr. Nipun Singhal to provide on the segment wise performance.



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Nipun Singhal:

Good evening everyone and thanks for taking this call. I will take you through the B2C of the consumer durables business. This quarter has been quite good for us in terms of our revenue growth. We posted a turnover of 213.36 Crores versus 140.47 in the current quarter which represents 52% growth quarter-on-quarter, so I will repeat that, 140.47 was the last financial year quarter and against that it is 213.36 for the current 2015-2016 quarter ended December 31, 2015. The strategy, which we have been working on, it has been consistent over the last two years. We have been talking about building brand through customer satisfaction and “Kushiyon ki guarantee” has been our communication tool, so we have been working harder on that and also increasing our spends to make the brand more visible and realizing what our strategy is. We have continued with that. There is nothing new we have done, really in terms of marketing strategy, we have kept the same philosophy in mind in this quarter as well, obviously this being a quarter which is dominated by festive sales our TV sales has been higher in the ratio, so I do not want to give you the exact quantities but just break up of the different segments 48% of the total sales was LED TV, in value terms 39% was air-conditioner and 12% was washing machines. With washing machine and LED almost at 60% of the total business for the quarter ended December 31, 2015 we find that there is a slightly lower EBITDA margin compared to the nine months where in the AC we had the higher EBITDA margin. The EBIT margin for the quarter was at about 6.31% for the quarter and for the nine months it is at 7.54%. This quarter also we are looking at pretty robust sales. We have had a very good start in January and in March we have already tied up with Star Sports where we will be one of the sponsors on both SD and HD channels, so wherever cricket is aired, the T20 World Cup is aired, Lloyds will be present. We have also bought a property from Start Sports called Fall of Wickets, so I feel that in March, as soon as the World Cup campaign starts the brand will be highly visible and we should do very good sales for both AC and TV. Another thing that we have done is, in our 60th year of our air-conditioning business we have given a unique 60 months warranty on air-conditioner and LED, which has been liked, by the market. A similar thing had been done by Voltas last year as last year was the 60th anniversary for Voltas. This year is our 60th anniversary and we have gone ahead and given 60 months warranty for both our customers for both AC and LED. So, I think with this focus on marketing in T20 World Cup as well as the 60 months warranty we are very confident of delivering very good numbers in the coming quarter. The only dampening thing in the last quarter has been on account of the products volatility which we all have been seeing that globally things are going in different directions, so we posted a forex loss of about 12.95 Crores during the quarter. During the quarter it was 12.95 Crores and for the nine months it was 19.45 Crores. That is the only negative I would say in the last quarter. Even this quarter of January, February, March there could be some hit on account of forex because we do not know where the dollar is going to end, things are very uncertain right now globally. We do not know what is going to be the final outcome for the dollar rupee, whether it will be closer to 69 or 67 we cannot predict that, so if it continues to be volatile, things are not good globally, then again we might have some hit in this current quarter on forex as well but if the dollar corrects and we see a more benign environment then probably we will be posting good results for this quarter and that is what I have to say on the consumer durables.



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On the OEM the packaged segment the revenue stood at 208.43 Crores as compared to 185.22 Crores. It is a 12% growth over the corresponding quarter and the EBIT is 7.87 Crores in the current quarter which was 6.4 Crores in the corresponding quarter last year. In the railway segment the company has signed transfer technology agreement with Toshiba Japan for the supply of the HVS Units of Delhi Metro for the RS10 project.

In the heat exchanger and component segment we have delivered drop in top line to 131.64 Crores versus 173.28 Crores but EBITDA margin has grown to 13.24 Crores versus 11.68 Crores in the previous corresponding quarter of last year. The reason for this is a decline in aluminum copper prices on and LME and also we have reduced the business of the sheet metal which really does not contribute much to our margins, which is why you are seeing a sharp drop in top line but a growth in EBITDA.

Anita Sharma:

Thank you Mr. Nipun. Now, I would request Mr. Filip to provide his overview on the overseas subsidiaries, over to you Philip.

Filip Eisenreich:

Thank you Anita. Good afternoon everybody. I will guide you briefly through the results of the overseas subsidiaries, which are the two companies Lloyd Coils Europe and Janka Engineering. In the last quarter the company has been performing well. The sales volume reached about 11 million in this quarter, which is a decline from 11.4 million Euros, last quarter and 12 million Euros in the last year corresponding quarter, so we see a decline of about a 3% of sales quarter to quarter and over 8% decline in sales year to year. It had also a negative hit to the EBITDA, to the profitability, EBITDA for the quarter was a loss of -0.3 million Euros as compared to a loss of -0.1 million Euros previous quarter and the same loss -0.1 million Euros previous year respective quarter. Major reason for the decline is in sales, this was the difficult situation in Russia, the political situation in Russia is basically prohibiting import of European goods currently and also the overall economical situation in Russia is not good, so the market in general is falling. Russia is representing about 15% of the sales of the overseas subsidiaries of Lloyd and we have lost about 40 to 50% of our volume from previous year. It not only locks of our volume, but it is also loss of profit because sales in Russia historically were always on a higher profitability level. The other reason similarly to what had been mentioned by Mr. Singhal we also had an impact of the declining metal prices, so actually certain decline in the sales is also related to the decline in metal prices, however there was also a negative profit impact coming from the declining metals, actually it should be the opposite because declining metal prices should be a positive signal to our profitability, however we tried to match our purchases and sales of metals one to one, so it should theoretically mean that whatever we buy we also sell for the same price, however in the times of fluctuating highly volatile metal markets, we have to also live with certain older inventories, it means that as the metal prices have been declining very sharply in the recent months, we have been consuming the old stock at higher value, so the if effect of declining metal prices is sort of delayed from what we see in the commodity market. We have tried to offset the declining sales by a new sales opportunity primarily in Germany where already couple of



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quarters ago, we had identified new business opportunities in the segment of close contra air-conditioning for data centres, so this is a very high-end type of product with very demanding customers. We have been successfully developing this business; however, as it is a very new product for the moment, we only generate a very low profit in this product, so basically the sales that we have lost in Russia has been compensated by new business in Germany which as of now is not delivering the profit that it should. Those are the major actions also that we are taking for the future to focus on reduction of the cost of production for these new products in order to improve margins on the new production. We also see certain sales opportunities, for example, in UK, where we can secure higher margin product in case we are able to deliver at competitive rates which is the major driver on this market, but we are also considering certain restructuring of both of these entities in Prague because we see the volumes are not at the desired level due to the situation in Russia and we have to respond to it, so we have already started first action of downsizing of Janka Company which is in progress right now and we are considering further cost cuts in the overhead organization as well as we evaluate exit from certain segment which are loss making or very low profitable as of now. So, those are in general the situation in Europe. Definitely the tough time in Russia will continue. We have to live with that and we need to look for further opportunities in Western part of Europe but competition is tough, so we have to find savings and implement certain restructuring actions.

Anita Sharma:

Thank you Mr. Filip. Now, over to the question and answer session.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Gaurav Sanghvi from Bajaj Allianz, please go ahead.

Gaurav Sanghvi:

I just wanted to understand more on this forex loss component, does this forex loss mean we have to enter in to forward contract agreement and where we have to report the loss on account of contract closure, if you can throw some more color on what is this forex loss?

Nipun Singhal:

Basically the forex loss is on account of the LC payment that happened in this quarter. In October, November, December, the LC payments, which were done, they were obviously done at a higher rupee dollar than what was the booking in our books. When we imported the material the dollar rupee was lower, but we booked the purchase in our books, but when we paid the LC in October, November, December, it was at a higher dollar, so it is a realized loss.

Gaurav Sanghvi:

During the booking stage we would have booked the orders at \$65 and we would have got some credit period and while seeking the payment we have to pay at 68.

Nipun Singhal:

Absolutely right.

Gaurav Sanghvi:

That means currently we are keeping all the forex position open or do we have any hedging strategy or any thought on that?



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- Nipun Singhal:** We have a partial hedging strategy. We do not completely hedge, and neither do we leave it completely open, so it is a partial hedging strategy.
- Gaurav Sanghvi:** Okay, just put things in to perspective, we would have got impacted because of this forex and because of rupee depreciating, however there could be some benefit in terms of lower commodity price, so net-net, do you think that should have offset it, it can sell each other in the quarter and profitability would not have been impacted because of higher competitive intensity we are not able to retain some of those benefits.
- Nipun Singhal:** You are absolutely right, the higher competitive intensity, we have not been able to retain that, like I said earlier this business is very tough in terms of competition. There are 20 odd brands in the market, so it is very rare that you will find companies are lucky enough to retain any savings on account of commodity or other savings, the market will just sell correct and the prices will adjust to the new costing.
- Gaurav Sanghvi:** If you can give a color on the nine months room AC market growth vis-à-vis Lloyd growth and what is the market share for us?
- Nipun Singhal:** Our market share I mentioned is about 11.5% for the nine months and the market size my estimate is for nine months will be roughly about 3 million. This is a very approximate estimate. I am not having the exact data with me. I am just assuming that 3 million would be the market share for nine months.
- Gaurav Sanghvi:** In terms of growth for nine months for industry and for Lloyd?
- Nipun Singhal:** The market is growing at about 10%, 8 to 10% is what I think would be the situation for the market to grow but in case of Lloyds. You want AC growth or you want complete turnover growth?
- Gaurav Sanghvi:** Room AC growth.
- Nipun Singhal:** It is about 70% in value terms
- Gaurav Sanghvi:** Sir, if you can just give some balance sheet number about inventory, debtors and cash level as on December?
- Nipun Singhal:** We are not very clear about disclosing such details because it is a very competitive market, so quantity as well as these numbers we do not want to disclose.
- Gaurav Sanghvi:** No I am asking for inventory and sundry debtors?
- Nipun Singhal:** For the commodity we can give you. We will send it to you Gaurav.



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- Moderator:** The next question is from Dimple Kotak from SKS Capital, please go ahead.
- Dimple Kotak:** Sir, just wanted to have guidance over the top line and margins, like we have grown for 16% for this quarter and 29% on a nine months basis and margins, if I include the forex loss, the margins have also come down by close to 110 basis points for the quarter, so going ahead for the next quarter and for the year FY 2017 what is the kind of outlook you would like to give?
- Nipun Singhal:** For the coming quarter that is January to March quarter, it all depends on where the dollar is going to rest, are we going to be closer to 67, 68 or 69 or 70, it is still work in progress, we are still waiting the February 15, we do not know that the dollar is going to be at, it is something which is difficult to predict right now, moving ahead in 2016-17 the margins will be almost similar to what are they today.
- Dimple Kotak:** Around 10% if I exclude the forex loss the margins are coming to 11.5% and if I don't then it is around 8.8% for the quarter, so can we safely assume at around 10%?
- Anita Sharma:** You are talking about the blended margins, I believe.
- Dimple Kotak:** The standalone blended margins, yes.
- Anita Sharma:** No, perhaps it would not be even 10% because you see as of now the shares of consumer durables business is increasing, last year it accounted to 47% of the total company's turnover, but now the trend is changing, we are seeing roughly 55 to 60% would be the consumer durables business of the total company business.
- Dimple Kotak:** That again has a lower margin because we have seen in this quarter the consumer durables margins stand at 6% compared to 10% and 7% sequentially and in previous year.
- Anita Sharma:** So the blended you can see somewhat around 8 to 10% range.
- Nipun Singhal:** Consumer durables I think will be around this level only.
- Dimple Kotak:** Can you throw some light as to why the consumer durables margin declining?
- Nipun Singhal:** This was the same question asked to me in the last concall. As we signed the bigger share of LED and washing machine, the blended EBITDA margin will decline because LED and washing machine, we are still not making any money. Our brand equity is strong in AC, therefore we command some premium. In LED and washing machine we are new entrants. We do not have the legacy of 60 years in television or washing machine. The brand equity is not so strong in these categories. Another thing is that there are so many companies in the LED business who are just throwing price, you can see Micromax and so many of these mobile companies have come, Intex etc who are just driving sales through price. In AC we find it less prominent, but there is some



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Micromax coming in AC and just talking price, and AC is more of an engineering product, it is a high involvement product in terms of the price. LED TV today, because of these online companies, and these mobile companies, it has become very, very competitive. The margins are very small in this business.

Dimple Kotak: That means there will be a squeeze on the margins going ahead because as we are increasing the consumer durables segment and we are having more of sales on LED and washing machine part, there might be some squeeze or some pressure going ahead in the margins due to this reason?

Nipun Singhal: Yes, but we are trying to compensate that. That is why I said we will be almost at similar levels and we trying to compensate that by tweaking our prices in air-conditioner especially towards Voltas price. Earlier in the early days we had 10-15% gap with Voltas, now we are having a 5% gap with Voltas, I am talking about the Market Operating Price. We are making attempts in our strong market to increase prices towards Voltas pricing to offset some of these lower margins on account of LED and washing machine.

Dimple Kotak: 55% of consumer durables is going to contribute in the future, so automatically the OEM and heat exchanger segment we expect to go down as in terms of contribution because OEM and packaged segment we saw degrowth of 7% this quarter on a nine months basis?

Nipun Singhal: OEM has no degrowth.

Anita Sharma: OEM there is no degrowth; there is an increase by 12%.

Dimple Kotak: Sorry heat exchangers I meant? It stands at 151 Crores compared to 173 Crores.

Nipun Singhal: But this degrowth is only on account of the sheet metal business which does not really contribute much to EBITDA, it is a spare capacity. I have spoken about it earlier and we have sheet metal fabrication capacity and that sheet metal business has come down, second contribution is from the lower commodity prices of copper and aluminum. There are two factors that lead to this drop in sales. EBITDA has gone up, against 11.68 Crores, EBITDA has gone to 13.24 Crores.

Dimple Kotak: Sir, in terms of top line, as we spoke about the margins, 8-10%, overall blended top line we expect it to be around safely 15% in the range of 10-15%?

Nipun Singhal: It would be very wrong to give any future guidance.

Dimple Kotak: Ballpark figure.

Nipun Singhal: I am not at liberty to disclose.



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- Dimple Kotak:** Sir one more thing, one concern over interest rates, currently what is your consolidated debt on your books it stands as on?
- Anita Sharma:** Consolidated net stands at 800 Crores.
- Dimple Kotak:** What is cost of debt?
- Anita Sharma:** 800 Crores is for the Indian entity and consolidated foreign, I think it would not be much but I will need to check for that.
- Dimple Kotak:** This is a standalone and what is the cost of debt?
- Anita Sharma:** 11-12%.
- Dimple Kotak:** Are we thinking of any repayment to retirement of debt any sooner because this interest cost and PAT margins are hammered?
- Anita Sharma:** Long-term debt is only 100 Crores and we are repaying as per the schedule of it.
- Dimple Kotak:** Any repayments lined down in FY 2017 and in this quarter and if you can quantify?
- Anita Sharma:** Yes there are repayments lined down, and that would be to the extent of 20 Crores in the entire financial year 2016.
- Dimple Kotak:** Will expenses be remaining in this range only 11-12%?
- Anita Sharma:** It might come down.
- Dimple Kotak:** Can we expect that in mid of next year?
- Anita Sharma:** Yes.
- Dimple Kotak:** On the subsidiary business it is dragging the entire consolidated profits down, if we have a standalone we had debt up to 47 Crores, so for the nine months we are seeing consolidated is coming to 35 Crores and what are the measures we are taking so the entire entity does not have a drag because the standalone is performing well whereas there is a drag on the consolidated basis?
- Filip Eisenrich:** I have been talking about it already; the major reason is to convert the newly acquired business in Germany in to a profitable business which is going to be done through certain improvement in product process and elimination of non quality cost. It is a big volume of let us say about 5 to 7 million Euros potentially of yearly new business which is currently at zero margin or even loss making, so our major action is right now to improve the production process in order to make that



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segment profitable as well and second action on the sales side is certain sales opportunities that we see in UK where we have been doing historically more sales but in the recent months we had lower volumes there because we were not able to offer very short lead time which is requested on this market, so we are also making arrangement to be able to offer requested lead time and thus acquire certain business or come back to previously higher volumes on British Market where the margins are also much better than what we experience in Germany for example and this is on the sales side but we are also taking action on the cost side which is most of the case for Janka business. We have two companies, both 70% of the business is being paid by Lloyd Electrical where believe that through these actions on the sales side we can come to a decent profitability. On Janka side there are more issues and also now with the recent hit coming from Russia we have to take certain actions on the cost side and we are already going through first phase of downsizing of the company and we are planning also further cost cut for next month and we also assess possibility to discontinue certain products or exit certain segments where we see no profitable future for the company, but of course the major cost is currently hidden in personal expenses, so everything what we do there is related to downsizing of the company.

Moderator:

The next question is from the line of Suretti K R from Mergers India, please go ahead.

Suretti K.R.:

When the forex is so volatile, any reason for the company following partial hedging policy, why not fully hedging it?

Nipun Singhal:

In the past when it was not being so volatile and recent times, it will work for us because if we do a full hedge it is very, very high and with these business margins you cannot afford to pay the premium for the full hedge. That is why we had adopted this partial hedging system.

Suretti K.R.:

If you don't hedge, you have this kind of hits, 12 Crores and 13 Crores?

Nipun Singhal:

We hope that this volatility, which is happening globally, will not be there continuously. What is happening right now is unprecedented. If you see stock markets going down 800 points a day and commodity prices like oil prices going down to 25000 and 30000 a barrel, these are very rare events in the cycle.

Suretti K.R.:

I got your point but not hedging it will be much more risky, anyhow, that is your call.

Nipun Singhal:

I fully agree with you but if we go for a full hedge which is the safest way the cost of hedging will be very high, it will lower the margin in a benign environment, today in hindsight we can say okay, if we had done a full hedge we would have saved this money but like for example the whole of 2014-15 we did not have any exchange loss, so at that time, this entire full hedge would have pinched us, it would have lowered our margins last year because we would have been paying premium and that would have brought our net profit down, this year when we find lot of volatility where we feel that in hindsight that we should have done a full hedge. It depends on



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which year you are looking at. If you look at 2014-15, you would have been asking a different question, why are we doing a full hedge and why has the profitability come down.

Suretti K.R.: My only submission is it is always safe to have a full hedge but that is a call you people have to take. I am going forward. In the last call you mentioned there is possibility of going for air purifier and LCD panels, where are we on that?

Nipun Singhal: Air-purifier has been launched this month in February. You will see lot of visibility coming in March in the World Cup. We thought that would be the appropriate platform to launch air purifiers. World Cup we have already committed those spends. In March you will see visibility for air purifiers. LCD panel I had mentioned last time that we are going to wait for the budget because right now the duty on panels imported is zero percent. If the duty changes in the sense that they put 10% or any duty on the LED panel then it would be sensible to start manufacturing it here, but if the duty continues to remain at zero percent, then I do not think it would be practical to start making LED panels in India. We are just waiting for the budget to go through and we are fully ready with all the other capex plans and machinery details etc as a client. The moment announcement is made in the budget immediately we can go either to invest for the LED panels or we can decide to shelve the project for another year.

Suretti K.R.: Where are we on the takeover development last time you had announced, the acquisition you had in Germany the North Sea acquisition?

Anita Sharma: The closing was supposed to take place in the month of February itself; there were some precondition before the closing pertaining to some creditors, which we have already got it now. We expect closing to happen by the end of this month.

Suretti K.R.: Does it increase the debt of the company substantially?

Anita Sharma: No, it is a small ticket size acquisition. It should not increase that much.

Suretti K.R.: What is the probability of making the insurance claim, do you have to provide for the entire thing?

Mukat Sharma: As of today the position is that the insurance company has repudiated our claim but we are now taking it to the appropriate legal forum and we have a strong case in our favour, by the time we close our book of accounts we will have a fair idea.

Suretti K.R.: If you win okay, if you do not win, do you have to provide for 100%?

Mukat Sharma: Once we close the book of accounts in the month of April or in the month of May, at that time, we will have a fair idea as to where we are heading. At that time, we will take the decision.



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- Moderator:** The next question is from the line of Sandeep from Karma Capital, please go ahead.
- Sandeep:** Sir for FY 2014 and 2015 was there a forex gain or loss for full year?
- Nipun Singhal:** There was no gain or loss. It was almost nil. FY 2014, very marginal I think, very negligible for FY 2014-15 and FY 2013-14 we do not have the figures as of now.
- Moderator:** The next question is from the line of Manoj Gori from Equirus, please go ahead.
- Manoj Gori:** I have couple of points, if you look at the exchange rates, what was the exchange rate for Q3 of FY 2015 and Q3 of FY 2016 for the company?
- Nipun Singhal:** FY 2016 are you talking about the quarter exchange rate prevalent in the quarter or at what price.
- Manoj Gori:** November 2015 quarter and December 2014 quarter?
- Nipun Singhal:** That is not relevant I think because what happens is we are not holding material bought in 2014 and 2015 and selling it this year. What the exchange rate was in the quarter ended 2014-2015, December 31, 2014 has no connection to the quarter ended the December 31, 2015. The purchase would have been done somewhere one month before, two month before, three month before, four months before, something like this, not one year before. We would not have purchased material the previous year to sell in this quarter.
- Manoj Gori:** Sir most of the forex loss was against LEDs right?
- Nipun Singhal:** No, forex loss will impact both LEDs as well as AC as well as washing machine. It is for all products.
- Manoj Gori:** My understanding is that AC we manufacturer it ourself?
- Nipun Singhal:** But there is an import content of compressors, copper tube, there is import content in AC as well. It may not be to the same extent as LED would be but 98% import content but there would be some hit because of that also.
- Manoj Gori:** Sir last time in the call you indicated that because of the margins like LED business in house manufacturing will be higher and that is the reason you might consider in house production without getting it outsourced, now when you say like you will be looking for budget and if the budget says zero percent duty, you continue to import it, so your margins will remain at a depressed level for LED going forward?
- Nipun Singhal:** Let me explain it to you. We have three facilities where we assemble TV. We have one facility, which is in Pantnagar. We have one facility in Bhiwadi and third facility in Ranipet near



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Chennai. Here we do LED TV assembly and testing. When we import we import components. WE do not import TV. We import LED panel and other components, speakers and so on and so forth. These parts are all imported and assembled and tested. These are done in our own factories. Now, the critical component in an LED TV panel is 70% of the total cost; now this component duty is zero percent. From March 2012 the government has declared zero percent duty on LED panel, it is 70% of the total cost, not on complete LED TV, only on the panel there is zero percent duty.

Manoj Gori: Last time in the call, I clearly remember, you said the EBITDA margins or the EBIT margins would be double if we start manufacturing the LED TV?

Nipun Singhal: No, I disagree with the statement. I said margins will go up if we make the LED panel by ourselves and there is duty, that is very true, but if the duty is imposed, if no duty is imposed, it would be cheaper to buy the LED panels from the global sources.

Manoj Gori: Sir now looking at the current global environment and looking at the macro situation it is very hard to predict the USD rupees value but if it stays at around 67, 68 rupees for another year, so will the margins continue to stay at the depressing level?

Nipun Singhal: This is not depressing I would say. If you look at the current margins without the forex they are very reasonable margins.

Manoj Gori: That is why I am asking you about including the forex, I truly appreciate that excluding the forex loss I think our margins are looking pretty good.

Nipun Singhal: The operational margins are very respectable and I do not see any possibility of expanding on those margins in the current time. The forex loss is something, which we cannot predict. There was a gentleman earlier that hedge 100%, that could be one strategy but that will reduce margins if we remain at 67, 68 only. If it goes to 75 then we will do a full hedge, then we will say, yes we did a smart thing of doing a full hedge; it is very difficult to give any clear guidance especially in the environment we are in right now. What we thought is we will do some partial hedging, so we do not take the full hit and unnecessarily we will pay premium, halfway mark. Going ahead, the operational margins will remain similar, what will be the next situation will depend on what the forex will be like, but a theme I mentioned in the last concall also was that as the ratio of LED TV and washing machine increases the blended margins will drop because my AC margin is higher than LED TV and washing machine, so bear that in mind.

Manoj Gori: So your Q4 and Q1 should be relatively with higher margins?

Nipun Singhal: Of course better, definitely, in any quarter where we do more AC you will find better margins.

Moderator: The next question is from the line of Kunal Sabnis from VEC Investments, please go ahead.



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- Kunal Sabnis:** Sir one question on forex, if rupee dollar rate stays at what currently it is at 68, do you expect another hit in Q4 at the current level?
- Nipun Singhal:** I have not done the calculation but I suspect there will be some hit.
- Kunal Sabnis:** Any flavour in terms of will it be similar to 12 to half of that?
- Nipun Singhal:** It depends on how much is the LC payment in January February, March. We have to calculate what is the LC payment because these are realized losses, so if my LC payment is going to be in January February, March I have to see what the purchase booking is done, at that time what was the rupee dollar, these calculations are to be done, at 68 levels there will be some partial hit on account of exchange even in the current quarter, whether to the extent of 12 Crores, 5 Crores or 3 Crores I do not have the data in front of me, this is the total LC payment being done and this is the purchase price of those purchases which are going to be paid in this quarter.
- Kunal Sabnis:** On the margins on TV last quarter you had mentioned that due to competitive pressure and serious undercutting margins have dropped to about 2 or 3%, is the market at a similar level or any improvement or depreciation in terms of margins you have seen from Q2 to Q3 and how do you expect Q4 to shape up?
- Nipun Singhal:** I do not see any depreciation at all because obviously everybody is trying to hold on to their prices in AC I do not see any depreciation happening whatsoever. In TVs, we have a very fixed policy. We have fixed a benchmark, below that we will not go. If it means that we lose some sales we will lose the sale, we will lose some top line number but we will not go below a certain benchmark, so I cannot predict what competition is going to do, are they going to play more dirty or not, but we are very clear that we will not go beyond a certain threshold in terms of our pricing. You might have seen advertisement coming up of brands like Intex and Micromax and all 12,990 for 32 inch; we do not indulge in those kinds of price wars. If it means that we will sell little less, we will sell less but there is certain benchmark to which I will go which means I have earned some money. I must be EBITDA positive.
- Kunal Sabnis:** As compared to Q2, which was really low, has Q3 looked a bit up?
- Nipun Singhal:** No, it has not looked up at all.
- Kunal Sabnis:** It had a similar level. Sir in terms of Q4, your last year Q4 was spectacular, do you expect this Q4 to be on similar lines in terms of top line and margins?
- Nipun Singhal:** I hope so and I am working for that but a lot will depend on how India will perform in the T20 World Cup, you bring it to the final or if you win I am sure it will be a fantastic Q4, because a lot of enthusiasm, we are putting a lot of bets on the T20 World Cup in terms of our marketing strategy. If India does well, we see it going to the finals, there is lot of visibility, lot of eyeballs



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looking at the World Cup, and we should see that translating in to sale. If India does badly the interest is lost, all our efforts in marketing will not be that strong, so it really depends on much because the season is just about picking up, it is March, which is the biggest month in this quarter for AC sales. January has been very encouraging, if you a market check, Lloyd has done very well in January. The issue is March being the biggest month of these three months how will the World Cup impact. If the World Cup impact is very good, we should see very good numbers in this quarter.

Moderator: We will take the last question from the line of Sameer Kapadia from Fortune Interfinance, please go ahead.

Sameer Kapadia: Sir in terms of partial hedging can you quantify what percentage it is to your exposure?

Nipun Singhal: The exposure keeps changing depending on seasonality. For example, in season time the exposure will increase, in off-season it will decrease.

Sameer Kapadia: What is the percentage?

Nipun Singhal: We do not go by percentage. We go on a mechanism, which is more to do with goods sold and goods unsold. Once the goods are sold we will start moving towards hedging. If the goods are unsold I still have the opportunity to raise or decrease prices depending on what movement is happening in the dollar although there may exposure already with me, for example if my total exposure is 100 Crores, out of 100 Crores whatever is sold, I will take a partial hedge on that, whatever is unsold I do not take a hedge on that although it is exposure.

Sameer Kapadia: Sir, earlier in concall you had given guidance that you intend to have a market share of 6% in washing machine and TV, are we in line or if you can give me some more sense in terms of for the five years perspective you are hoping to achieve a 10% market share in each of your subcategories in to your consumer durables segment?

Nipun Singhal: I agree with your latter statement that we are trying to achieve 10% in five year's time by 2020 but this 6% I have not mentioned in this year that is for sure not our business plan what I said earlier I will repeat right now, in AC we have already crossed the 10% mark, we are somewhere between 11 and 12, that we will see where we are. In TV we are at about 2.7% market share and in washing machine we are at 1.4, 1.5% market share, now we would like that in TV and washing machine over the next five years we will take this up to 10%, that is our business plan that by 2020 we should have 10% market share in all product categories. Of course 6% will come somewhere in the middle in between these five years, now whether it will be next year or year after that, is something I do not have clarity on right now. We are going to try our best to do it as fast as possible.

Moderator: The next question is from the line of Rajiv Agarwal from Sterling Capital, please go ahead.



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- Rajiv Agarwal:** Sir how are you seeing the current consumer sentiment and demand especially in AC?
- Nipun Singhal:** The sentiment of the consumer is quite good because this year we will see prices dropping. The pass through of the commodity reduction, prices of AC will come down in this year from January to June, so I think this will spur more buying. I expect the market to grow definitely. Secondly, if you see the weather, which is a big trigger for AC, we have had an unusually warm winter. If you see December has been the warmest winter in the last over 100 years. I think this El Nino effect is going to result in a very warm summer in the coming three, four months. One is that prices have already started dropping, the pass through of the commodity reduction is happening and similarly you will find that it is going to be more hot so that demand will be increasing. Third factor is that the star rating has not changed except that with one star you cannot sell now, but the absolute numbers, the ER for two stars, three stars, and four stars has not changed in 2016. It is same as in last year, which means that there is no increase in cost because of star rating changes, which we had in the past. These are all the factors, which is why I believe that the markets will be quite good for AC in the next four, five months.
- Rajiv Agarwal:** Sir regarding TV industry do other players like Micromax, Intex, do they also follow the same model like they import LED panels and other parts and assemble in the country or do they follow some different thing?
- Nipun Singhal:** No, it is identical, only thing is that Micromax does not make any thing. They have an OEM source call Bhagwati; Bhagwati does the manufacturing and supplies to Micromax.
- Rajiv Agarwal:** So they are outsourcing the manufacturing part?
- Nipun Singhal:** Correct. From what I know they are related, on paper or not, but they are related parties.
- Rajiv Agarwal:** While we are importing and assembling ourselves that is the only advantage.
- Nipun Singhal:** The difference is that we are doing it all within Lloyd Electric; they are doing it through Bhagawati, I think somebody on the board of Bhagawati is related to somebody in Micromax, I am not sure of that, you can ask Micromax that question.
- Rajiv Agarwal:** No, what is the trend in the industry, I just wanted to understand that.
- Nipun Singhal:** The major companies LG, Samsung, Videocon Group, all these companies manufacture like Lloyds in house, so they import panels because there is no capacity in India, they all import panels, they import components and they assemble here. In case of big companies like Samsung and LG and Panasonic they do even little more manufacturing here, they do plastic moulding here. They will do little more activity than only assembly but panels nobody is making in India because panel duty is zero percent.



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Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor over to Mr. Salil Utagi for closing comments.

Salil Utagi: Thanks everyone for attending this calls especially Mr. Filip who has attended from Czech Republic. Thank you Nipun ji, thank you Anita and Mr. Mukat.

Moderator: On behalf of Systematix Shares & Stock Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.