



“Lloyd Electric & Engineering Ltd Q4 FY15 Earnings Conference Call”

May 29, 2015



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**MODERATORS:**      **MR. SALIL UTAGI – ASSISTANT VICE PRESIDENT - INSTITUTIONAL RESEARCH, SYSTEMATIX SHARES & STOCKS (I) LTD**



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Moderator:** Ladies and gentlemen good day and welcome to the Lloyd Electric & Engineering Q4 and full year FY15 Earnings Conference Call hosted by Systematix Institutional Equity. 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 '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Salil Utagi from Systematix Institutional Equity. Thank you and over to you sir.

**Salil Utagi:** Thanks Liza. Good morning ladies and gentlemen welcome to the Q4 and full year FY15 results conference call of Lloyd Electric & Engineering. From the management side we have Mr. Nipun Singhal - Whole Time Director, Mr. Arun Paliwal - Senior Vice President, and Ms. Anita K. Sharma - Company Secretary. Now I would request Ms. Anita Sharma to give opening remarks. Over to you Ma'am.

**Anita K. Sharma:** Thanks Salil. I welcome you all to the Q4 FY15 and the year ended conference call. Mr. Salil has already introduced you to the management team. Before I take you through the financial highlights for the Q4 and the year ended March 15, I would request Mr. Nipun Singhal to provide an overview of the company and the segments in which we operate. Over to you sir.

**Nipun Singhal:** Good morning everybody. I will quickly take few minutes to give you a brief of what the Company does so you have an idea of what businesses we are present in. We basically have three business segments in which we operate, the first segment is a) **Heat Exchangers and Components** where we manufacture the critical Component required in every heating ventilation and air conditioning



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

product. Moving downstream in the value chain we manufacture air conditioners, residential air conditioners as well as railway air conditioners these are RMPUs roof mounted Packaged units used by the Railways and metro trains. This segment is referred to as b) **OEM & Packaged Air Conditioning**. As we move further downstream in the value chain we have our c) **Consumer Product division** which is selling air conditioners, LED television, washing machine, chest freezers, and other appliances under the Lloyd brand to consumers. The basic breakup is that for FY15, the B2C business which is the consumer durable segment accounted for about 47% of the total standalone revenue and the Heat Exchanger and Component business was contributed 30% of the total revenue and the OEM and Packaged air conditioning business contributed about 23% of the revenue. Overall we have had a very descent year and we posted 27% growth year on year basis.

**Anita K. Sharma:** Thank you sir. I will provide you the financial highlights for the Q4 and the year ended March 15 and thereafter the lines will be open to the question and answer session. We will try to answer the maximum questions we can and in respect to those we are unable due to the time constraint we will get back to you through the email.

On the standalone basis for the quarter ended March 31<sup>st</sup> 2015 due to the impressive performance of the consumer durable segment the revenue from the operations for the quarter ended March 31<sup>st</sup> 2015 was 618 crores as compared to 511 crores in the corresponding quarter of the last year. Representing the growth of 21%, the operating profit excluding the non-operating income for the quarter was significantly higher by 51% at 101 crores as compared to 67 crores in the corresponding quarter of the last year. The finance expenses for the quarter was down to 25 crores as compared to 36 crores during the



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

corresponding quarter of the previous year. The profit before tax stood at 63 crores as compared to 34 crores during the corresponding quarter of the last year registering the growth of 87% consequently the net profit for the quarter was higher by 31% at 50 crores as compared to 38 crores in the corresponding quarter of the last year. As well as for the FY ended March 31<sup>st</sup> 2015 on a standalone basis, the revenue from the operations for the year ended March 31<sup>st</sup> 2015 was 1835 crores as compared to 1440 crores during the previous year registering a growth of 27% on the top line. The EBITDA margin for the year was 225 crores as compared to 177 crores in the previous year.

Other income for the year stood at 4.57 crores which includes gain from foreign exchange fluctuation and other miscellaneous income this is as against 12 crores during the previous year which mainly included the dividend income from the wholly owned subsidiaries abroad. The profit before tax was higher by 25% at 103 crores as compared to 82 crores during the corresponding quarter of the last year. The next profit after tax stood at 82 crores as compared to 76 crores during the previous year. The EPS at the yearend stood at Rs.23.11 per share as compared to 21.54 per share during the previous year. So now I will provide you the data for the consolidated basis for the year ended March 31<sup>st</sup> 2015 this includes the consolidations from the wholly owned subsidiaries based in Czech Republic. The revenue from the operation on the consolidated basis for the year ended March 31<sup>st</sup> 2015 was 2173 crores as compared to 1776 crores during the previous year registering a growth of 22%. The operating profits for FY 15 were high by 38% to 239 crores as compared to 173 crores in the previous year. The profit before tax but after extra ordinary income stood at 111 crores, this includes extra ordinary income of 6 crores as compared to 97 crores during the previous year which included the extra ordinary income of 41 crores coming from the insurance claim of Czech



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

Subsidiary. However, the profit after tax was 88 crores as against 89 crores during the previous year. The marginally lower PAT at consolidation level was mainly on account of the extra tax provisioning as against the previous year where in due to deferred tax credit the aggregate tax expense was reduced.

On the subsidiaries front during the FY15, Lloyd Coils Europe which is based in Czech Republic contributed to the impressive EBITDA at €3.04 million and profit after tax of €2.62 million as against €1.6 million and €1.82 million respectively. During the year Lloyd Coils Europe has substantially increased the market share in the segment of close control air conditioning and became a key player to customers like Emerson, Carrier, Stulz which are top leaders in this segment. Whereas the other subsidiary, Janka Engineering suffered a loss of €1 million at the EBITDA level mainly because of the low margin level on the air handling unit business and the reduce share of the industrial cooling segment due to the slowdown in the construction industry in Europe. However towards the end of the fiscal year Janka has already implemented 5 to 8% of the increase in the prices across all the air handling unit range which is effective for all the new projects. In the segment of the rail HVAC Janka has already secured two prestigious project from Skoda Transportation and we will deliver the HVAC unit to Skoda Tram for City Bratislava and Prague Czech Republic. The total revenue from the overseas subsidiaries was €50 million for the FY14-15 as against €45 million during the previous year. The overseas subsidiaries have contributed to the PAT of €0.90 million. With this we are closed with the financial highlights. We are now open for the question and answers session. Over to the Moderator



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Gaurav Sanghvi from Bajaj Allianz General Insurance. Please go ahead.

**Gaurav Sanghvi:** So my question is, even in this particular year we have shown very good growth in terms of top line and EBITDA but if we look at interest cost has moved up around this year and that is I think hurt somewhere in the bottom line, so what's our overall strategy on the working capital side that is question number one and other question is if you can provide an overall view on the AC market- how we look going forward, what are the expectations in terms of medium to long term growth?

**Nipun Singhal:** I will answer your second question first about the AC market. This year has been slightly muted start for the industry the winters were prolonged and we saw that the summer eventually settled in somewhere in the mid of April in West India and North India came towards the mid of May. So it has been a little sluggish for the industry in terms of demand off take but I am very pleased to see that Lloyd has done considerably well despite the adverse conditions of late onset of summer. We attribute this to basically two distinct thing that we have done this year, one is the increase in marketing spends. I am sure all of you as consumers would have seen a greater visibility of the brand on mass media, you can see our spends on television and on print ads have been significant higher than the years before. So I think the awareness itself has probably helped the company to grow by a few percentage points. The second part of what has been significant for us has been the campaign of "Khushiyon Ki Guarantee". What we believe strongly that customer delight is our mantra for increasing market share, happy customer will in turn bring more customers and this will increase the confidence of dealers and such the brand will grow from here and that



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

seems to have worked. So these are the two aspects as to why Lloyd has done well against adverse conditions in the first four months of the calendar year.

On the working capital front, our target is to gradually narrow down the working capital cycle as the brand pull increases. In the first few years we were in the cycle of growing market share, increasing penetration and hence with the push strategy we were extending better terms to our dealers may be in terms of keeping inventory at our end as well as giving extra days of credit. But as the brand becomes stronger the brand pull increase customer awareness. The other business segments we won't see much tightening happening in working capital on the heat exchange and Components business as the business model is the same. However, minor improvement might take place. But in Consumer Product we definitely have a strategy in place to bring it down by a considerable level i.e. at least 30 days in the next 24 months.

**Gaurav Sanghvi:** Do we see any kind of stable interest cost or probably it is coming down.

**Anita K. Sharma:** No, probably it would be coming down slightly as the top line increases or remaining stable. If you see since the previous two quarters the interest cost is more or less the stable i.e. approx. 25 cr., per quarter.

**Gaurav Sanghvi:** Okay.

**Nipun Singhal:** One more thing Gaurav I would like to add here is, you see what is happening is that the B2C business is growing at a faster pace than the OEM and the Component business so what you will find is that in the future years the blended working capital will be better because the mix



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

of Consumer Products will be more than what it is in the current FY so if right now we are at 47% may be going ahead it will 55% and 60% so the blended will look much better and more attractive than what is today.

**Gaurav Sanghvi:** My last question is on LED side, LED has been a very strong growth drive for us for the consumer durable so can you share the number for that segment for the year?

**Anita K. Sharma:** The revenue from LED business was Rs. 228 crores for the FY15 and the number of the LEDs which has been sold is 163571.

**Gaurav Sanghvi:** Okay. And sir any update on the washing machine plant which you were planning to set up?

**Nipun Singhal:** Well, we are not planning it for FY16. So it's still in the drawing board we are doing to plan to have that capacity in place for FY17.

**Gaurav Sanghvi:** Okay, sir thanks a lot and all the best.

**Moderator:** Yes, ma'am. The next question is from the line of Deepak Narnolia from Antique Stock Broking Limited. Please go ahead.

**Deepak Narnolia:** I have a couple of questions, your EBITDA margin for the quarter is significantly high in heat exchanger business. So can you through little light on that?

**Nipun Singhal:** Q4 is a robust quarter because of the start of the AC season essentially. Even the Heat Exchanger business is linked to the air conditioning industry so in Q4 where our capacity utilization is at 100% so definitely you will find a better EBITDA margin in this period than in the say Q2 and Q3 of the financial year.





*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Deepak Narnolia:** So this is the phenomena in every fourth quarter, Heat Exchanger is going to have this kind of margin every fourth quarter.

**Nipun Singhal:** Fourth quarter generally would be a best quarter in terms of EBITDA margins. Simply because of higher capacity utilization.

**Deepak Narnolia:** Okay. And sir what is your ad spend in FY15?

**Nipun Singhal:** Ad spent was 35 crores in FY15.

**Deepak Narnolia:** And one more question sir if you permit, you said in AC, the market is tough because of late onset of summers but what I feel that, and heard from the industry that in FY15 AC market has shown growth after the stagnancy of three years.

**Nipun Singhal:** That is correct.

**Deepak Narnolia:** industry has shown 10% kind of volume growth in FY15. Am I correct?

**Nipun Singhal:** Absolutely right, 10% industry growth but if you look at other leading players like Voltas, they have grown above the industry growth. Similarly, Lloyd numbers we have grown much more than the industry which means that we have taken market share from others.

**Deepak Narnolia:** So what would be your market share in FY15 sir?

**Nipun Singhal:** In FY15 our market share of Lloyd Ac's was 8% We sold 270,000 odd AC's in FY15.

**Deepak Narnolia:** And 3.9 million is the...

**Nipun Singhal:** No, FY15 would not be 3.9 million not to my estimate I think it's about 3.6 million.



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Deepak Narnolia:** Okay.

**Nipun Singhal:** So that would correspond to about 8% market share, I foresee the market to become 4 million this year.

**Deepak Narnolia:** Okay.

**Nipun Singhal:** In FY15 it will be 4 million.

**Deepak Narnolia:** And sir also if you compare quarter to quarter may be it is wrong to compare it on quarterly basis but your debt has increased in comparison to the last year but interest cost has come down, like last year in March quarter it was 36 crores versus this year it is 25 crores however your debt has increased from 530 crores to 630 crores.

**Anita K. Sharma:** Finance cost for the corresponding quarter of the previous year included the currency fluctuation as well

**Deepak Narnolia:** Okay, so this is 25 crores is your running rate?

**Anita K. Sharma:** Yes, running rate is 25 crores exactly

**Deepak Narnolia:** Out of this 35 crores major part is in the fourth quarter?

**Anita K. Sharma:** No, not the major part is in the fourth quarter. It's roughly 15 crores is coming in the fourth quarter.

**Deepak Narnolia:** Vis-à-vis last year?

**Anita K. Sharma:** The last year Deepak I need to have to figure I will get back to you with those figures.

**Deepak Narnolia:** Okay, ma'am that is all from my side thank you very much.



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Moderator:** Thank you. The next question is from the line of Rajeev Agarwal from Sterling Capital. Please go ahead.

**Rajeev Agarwal:** My question is what is the growth outlook for FY16 and what sustainable margins we are looking in FY16 and my second question is the growth outlook for your overseas subsidiaries

**Nipun Singhal:** See we are estimating growth of about 25% CAGR. At EBITDA level we don't see any significant change in margins because the industry is quite competitive and as we increase volume, spend do increase so we are not anticipating any expansion in volumes however we are expecting a decline in the capital employed which means we will see that the ROCE will significantly improve in the coming years. So on the EBITDA margin would be more or less the same but the return on capital employed will probably improve in the coming years.

**Anita K. Sharma:** Because of the working capital.

**Nipun Singhal:** Because of the working capital cycle been tightened and corresponding the working capital debt being reduced.

**Rajeev Agarwal:** And also your asset turnover will probably increase.

**Nipun Singhal:** Absolutely right asset turnover will also increase.

**Rajeev Agarwal:** And my second question was regarding this growth in overseas subsidiaries demand outlook in overseas subsidiaries sir?

**Anita K. Sharma:** The Overseas subsidiaries registered a growth of 7% on the top line. The contributed ₹50 million towards Sales as against ₹50 million during the last year. So we will be seeing the same growth coming in the next year as well. Though Lloyd Coils Europe, reported a positive PAT of \_\_\_\_\_, Janka reported loss of \_\_\_\_\_. However, we would



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

see Janka turning around in the next year because of the new order that they have bagged from Skoda transportation for the city Bratislava for the supply of HVAC units and few cost cutting measures undertaken.

**Moderator:** Thank you. The next question is from the line of Nidhi Agarwal from Sharekhan Limited. Please go ahead.

**Nidhi Agarwal:** My first question is what is the total volume sold to OEMs?

**Anita K. Sharma:** The quantity is 2,62,551 units which includes CBU as well as Kits and the revenue coming from that is 392 crores.

**Nidhi Agarwal:** Okay, so direct brand what is the figure?

**Anita K. Sharma:** The direct brand for the ACs is 570 crores and quantity 270,000.

**Nidhi Agarwal:** Okay, so last year we sold around 200 crores of LED TVs and this year we are showing like 15% growth so are you sensing some stagnancy in TV sales?

**Nipun Singhal:** Not at all. LED TV sales we are expecting a bigger growth in LED TV sales in fact if you see our year on year growth as against 118,000 LEDs we sold in FY14 so we have sold 163571 in FY15. So the growth rate in LEDs is going to be very buoyant simply because the headroom available to us in LEDs is quite significant. Our market share in AC is about 8% we would probably climb to about 10% market share whereas LEDs our market share is hardly up to 2.5%. So the scope to grow LEDs is very high and much more than in ACs.

**Nidhi Agarwal:** Okay. I mean like in terms of value are we moving in lower segment so we will not see any major uptake in overall review figure?



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Nidhi Agarwal:** Growth in terms of value terms since we are moving in lower rate TVs are we not going to see major growth from value term?

**Nipun Singhal:** No, you misunderstanding it maybe the thing is like this that the market share in LEDs is about 2.25% for Lloyd. Which means there is a lot of head room for us to grow, we have 7000 plus dealers across India so most of these multi brand dealers they sell all products, they sell ACs, TVs, washing machines and other appliances. So we have the distribution network in place today with the kind of spends we are doing there is a brand awareness in the minds of consumers we created the backhand in terms of our service infrastructure so the possibility to grow from 2.25 to 5% is far easier than to grow from 8% in AC to 16% in ACs. From 8 to 16 the jump is much-much harder than from 2.25 to 5 or 4.5. So because at a lower market share the growth rate is always higher because the base is smaller. As you increase your market share then the percentage growth reduces because it's on a bigger base.

**Nidhi Agarwal:** Okay. And sir we had a inventory loss claim of 44 crores any update on that?

**Nipun Singhal:** Being, the government department we would not like to comment upon their procedure and processes but yes we are putting a best foot forward to recover it but it's entirely up to them and their procedure and their internal processes.

**Nidhi Agarwal:** Okay.

**Nipun Singhal:** It's not really practically pushed beyond a particular point.

**Nidhi Agarwal:** Okay, so what is the CAPEX figure for FY16?

**Anita K. Sharma:** The CAPEX figure for?



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

- Nidhi Agarwal:** FY 15 and expected CAPEX for FY16?
- Anita K. Sharma:** The addition to the CAPEX figure is roughly around 21 crores for the FY15
- Nipun Singhal:** For FY 16, Some CAPEX is already been frozen, which includes de-bottling of the existing capacity air conditioner production, between the OEM brand and our own brands. So that de-bottling activity will happen during the financial year which is about say 20 to 25 crores CAPEX is firmed up. Now whether we will go in for the washing machine production within this financial year that is something which is not firmed up. Definitely in 16-17 we will be starting washing machine production so the investment will happen before 31<sup>st</sup> March 15 or it will 16 or will be the next financial year that is something which is not firmed up.
- Nidhi Agarwal:** Okay, and sir my last question is on the decision on Lloyd that we are not partnering with any e-tailers, we have our own Lloyd so are you seeing that this decision might result in some loss of opportunity that might come through e-tailers. What is that size if?
- Nipun Singhal:** We have a very clear policy. We don't want that one segment should grow and the other segment should de-grow which means that online grows and physical sales come down. We want both of them to co-exist and complement each other. Which means that we would like to have price parity between these two segments between online and physical sales. We are aggressively promoting our online website [www.myllloyd.com](http://www.myllloyd.com) so as to give option to the consumers to buy online Lloyd products.
- Nidhi Agarwal:** So what was the sale through myllloyd.com this year?



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Nipun Singhal:** We started just few months back. So the fraction of the online sales on [www.myllloyd.com](http://www.myllloyd.com) is marginal

**Nidhi Agarwal:** Okay, but response has been good.

**Nipun Singhal:** Response has been very good please visit our Facebook page- we have crossed a 150,000 likes on Facebook.

**Nidhi Agarwal:** That is great.

**Nidhi Agarwal:** Okay, sir any other new product that you are offering for in consumer durable?

**Nipun Singhal:** We are bringing in refrigerators.

**Nipun Singhal:** We have done the test launch this summer with 3240 no.of ranging from 235 to 690 liter.

**Moderator:** Thank you. The next question is from the line of Jehan Bhadha from Motilal Oswal Asset Management. Please go ahead.

**Jehan Bhadha:** My first question is on your sales footprint turnover when I scan through newspapers there are prominent retailers providing advertisements and there are multiple brand that they showcase but I have not yet seen Lloyd brand say for Vijay Sales for example so what is the reason for that?

**Nipun Singhal:** We were present in Vijay Sales for five long years, from 2009 to 2014 What has happened is these big retailers they tend to arm twist brands like Lloyd and they ask for very low pricing, they ask for extended credit period and it's not very profitable doing business with big retailers. So during the last year we parted ways with Vijay Sales.It is



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

not that we have any aversion to retail chains. The problem is that it should be at prices and terms mutually acceptable.

**Jehan Bhadha:** Right make sense. Sir one more thing, you just mentioned that how you are trying to improve your return ratios ROCE again operating cash flow if I look at historically it is negative so I understand you said that you are trying to reduce your working capital cycle by 30 odd days but in spite of this I am not able to understand how it will drastically change things for you in terms of improving ROCE because working capital days as per my calculations for FY15 were around 160 days so 30 days is actually not such a big movement right now, your comments on that.

**Nipun Singhal:** What we said is there will be a gradual reduction right because we are in the growth phase we are looking at maintaining aggressive growth in the brand for the next two to three years. So in this growth phase we don't want to upset the apple cart by suddenly clamping down and sort of putting in brakes and try to reduce working capital by 60 days or something. The idea is to bring it down 30 days and then reassess the situation at that point and then again look at the next level of contractual working capital.

**Anita K. Sharma:** Once you are in the growing phase the working capital is bound to increase, as you have to give sweeter terms to dealers/ distributors. As against the normal industry growth of 10-15%, we have grown at a CAGR of 22% over the past few years

**Nipun Singhal:** The blend also will change,

**Anita K. Sharma:** As of now, consumer durable accounts to roughly 47% of the total revenue, once that blend changes then the working capital for the company as a whole will come down





*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Jehan Bhadha:** Correct. Lastly what I could gather is that because you are still growing your OEM and HVAC businesses so as long as these businesses grow it will be very difficult for you to generate good ROCEs and positive cash flows, so is that understanding correct if you are talking about these segments growing at 15-20% going forward also, so that will keep sucking-in more and more cash requirement right?

**Nipun Singhal:** The OEM and the Component business is going to grow but at a slower pace than the Consumer business. So in the Consumer business the growth rate will be much higher than the OEM and the Component business, which means that when you look at the blended sales you will find that 47% for FY15 it will touch about 60% in the next 2 years. So what will happen is as the contribution of the Consumer Product business increases the overall company's working capital days will shrink that is my point. It's a double effect happening one is in Consumer business itself we are tightening the working capital cycle and the second thing which is working is that the Consumer business is contributing more of the total company so it's two things working together.

**Jehan Bhadha:** Right, but sir in terms of you yourself as you have said we do consider that the OEM and HVAC businesses are inferior to our B2C businesses so is there a thought of high wing of those businesses or selling them off?

**Nipun Singhal:** No, it is not at all inferior. The whole strength of Lloyd Electric starts from the fact that we are vertically integrated. The OEM businesses and the Heat Exchanger businesses let not forget they are not only for standalone business purposes, they are also very critical to the success of the Consumer business because we manufacture Heat



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

Exchanger then we produce ACs and then sell the ACs under Lloyd Brand, so this vertical integration gives us a very big handle on the cost and quality which is essential to the growth in Consumer business number one, number two by doing business as a merchant manufacturer of Components as well as a merchant manufacturer of ACs it gives the economy of scale which I would not have had, had I been only doing backward integration for our own brand.

**Jehan Bhadha:** Sir by my point was that there economies of sales would be limited but on the other hand they are not actually losing money or doing business, the return ratios are not accretive what I mean to say when you are doing your B2B business the returns are not that lucrative.

**Nipun Singhal:** No, if you see EBITDA level in fact is higher in B2B business than the B2C. Yes, the ROCE is lower because the capital employed is higher the working capital cycle is higher.

**Jehan Bhadha:** Yes, that we can see right.

**Arun Paliwal:** We are the largest coil manufacturer in the country, supplying coil to all the best known brands.

**Jehan Bhadha:** Right, got your point sir.

**Nipun Singhal:** Our Heat Exchanger business is in fact not only for room air conditioner segment but also on precision air conditioning, rolling stock applications and refrigeration segment. I will explain to little more detail what this is, precision air conditioning is the air conditioning done for control panels or electrical panels. Our notable customers in this field are Emerson in Mumbai and Schneider Electric in Bangalore. We supply coil for refrigeration segment like Frigoglass, who is the largest supplier to Coke worldwide. So these are segments



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

which are very lucrative long term growth engines. Even in radiator supplied for the locomotive engine for Indian Railway, the operating margins are comparatively high.

**Moderator:** Thank you. The next question is from the line of Chirag Sethalvad from HDFC Mutual Fund. Please go ahead.

**Chirag Sethalvad:** Sir I wanted a breakup of the Consumer business what you have given us as you mentioned earlier total about 870 crores and more I could see in segmental numbers little higher so if you could give the break of the Consumer business which I believe is 962 crores if I am not mistaken.

**Anita K. Sharma:** No, 962 crores includes the segmental sale as well.

**Anita K. Sharma:** It includes one-time segmental sale of 92 crores to OEM, so the net revenue of Consumer Durable Segment for FY15 is 870 crores.

**Chirag Sethalvad:** Okay, and could you give me the breakup of, you mentioned within OEM the AC sales is around 392 crores so I am assuming this comes in your OEM and Packaged AC business right?

**Nipun Singhal:** Yes.

**Chirag Sethalvad:** So what are the segment wise revenue break-up

**Anita K. Sharma:** 870 cr. from Consumer Durable segment, 426 cr. from OEM & packaged Air conditioning and 539 cr. from Heat Exchangers and Components. This make to the Standalone Net Sales of Rs. 1835 cr.

**Chirag Sethalvad:** How much from Package units?

**Nipun Singhal:** 33 cr., included in OEM & Packaged Air Conditioning segment



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Chirag Sethalvad:** That I have the breakup that you provided earlier LEDs. And sir can you give the working capital by segment when you mentioned the 30 days reduction, that 30 days reduction is what you were expecting only in the Consumer business right?

**Nipun Singhal:** That is right.

**Chirag Sethalvad:** So what would be the current working capital requirement in each of these businesses?

**Nipun Singhal:** The Net working capital days in Consumer Durable business is 120 days

**Nipun Singhal:** 125 days net. And in the OEM and Railways it is about 190 days.

**Nipun Singhal:** And in the Heat Exchanger and radiator it is astonishingly high at 250 days. So, the overall company would be about 179-180 days. I am expecting that the Consumer Product business will tighten by about 30 days. And the blend of Consumer business in the total company will increase as explained earlier.

**Chirag Sethalvad:** As far as this 30 day reduction which part of working capital are you expecting an improvement in?

**Nipun Singhal:** I am looking more at inventories.

**Chirag Sethalvad:** So is it possible to give a breakup of this 125 in terms of days what is inventory, what is receivables and what is payable?

**Nipun Singhal:** Inventory is 120 days on a gross basis, receivable is 60 days, and 55 days is creditors.



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Chirag Sethalvad:** Right. Okay, can you give the EBIT for each of these businesses because there seems to be a little bit of difference the way you report your segmental number and the way you have given the breakup to us right now, so is it possible to give the EBIT number for the consumer OEM Packaged and Heat Exchanger business?

**Anita K. Sharma:** Yes, the EBIT for the Consumer Durable business is 11% for FY15 standalone. For the OEMs & Railways it is 9.37% and for the Heat Exchangers and the Component it is 12.68%.

**Chirag Sethalvad:** Great. My last question was in terms of do you would you have a targeted return on capital employed and if so what would you like to achieve in the next year or two?

**Nipun Singhal:** I think definitely it will be in the late-teens.

**Chirag Sethalvad:** Currently it is around 11-12%.

**Anita K. Sharma:** No, as of now we are around at 13% ROCE

**Nipun Singhal:** Next 2-3 years we should try to be at 18%

**Moderator:** Thank you. The next question is from the line of Sureddy KR from Mergers India. Please go ahead.

**Sureddy KR:** What is the advertisement budget for the coming year, the second question is you said you have a CAPEX of-35 odd crores is it for washing machine or is it for washing machine or for the ACs?

**Nipun Singhal:** Our last year spent was about 35 crores. FY 16 would be roughly 55 cr. ad spend. In the case of the CAPEX, we mentioned that 25-30 cr. is basically going to de-bottling capacities in the AC manufacturing. At present, our capacity has been almost utilized by both our own



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

captiveconsumption for Lloyd brand ACs as well as for OEM. So if we have to grow from here in any of the segments we need to increase our productivity in the factories for which we require some CAPEX for debotling the capacities. So some AC lines are going to be added for sure we are going to add indoor unit manufacturing so there are some de-bottling activities going on which will be contributing about 25 crores. If the washing machine kicks in then the CAPEX will be more it will be more to the extent of about 50 crores. So from 35 to 50 crores but again the washing machine plan is for '16-17 because the season for washing machine is the monsoon. So we have definitely mixed the season in '15 so we will try and catch the 2016 monsoon which means production will start somewhere around May 2016. So the CAPEX may be in this financial year it may move to next financial year.

**Sureddy KR:** And my another question is how is the first quarter looking up as the summer is much more severe than the last quarter what is your reading?

**Nipun Singhal:** It's too early to give any numbers for the quarter but you will find good results in the first quarter of this year as well.

**Sureddy KR:** My last query is since you have a receivable for duration of 90 days is there any scope for reduction by doing the factoring of the receivables you can reduce it is there any such scope?

**Nipun Singhal:** There is a scope for that the problem here is that we do consider that to some extent but again it's a process because many of these companies and banks they want a vintage period. So like for example we have been in dialogues with some banks, but they want minimum two year vintage. So these are the constraints which we have in factoring. The other thing is that for the small retailers factoring is not possible.



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Sureddy KR:** I just didn't follow it you said two year vintage what is that meaning please.

**Nipun Singhal:** Two years vintage means that they have existing relationship of two years in the company. But we are doing a little bit of factoring we have started doing a little bit of factoring in short that we are at zero level today wherever possible we are doing it.

**Sureddy KR:** Because generally the rate of interest on factoring on good resources much lower than what the banks may be charging you.

**Nipun Singhal:** No, the factoring rates are higher in fact.

**Sureddy KR:** Is it?

**Nipun Singhal:** Yes. Our CC limits are cheaper than our factoring limits.

**Sureddy KR:** That is surprising actually. Whatever you export you get that export credit?

**Nipun Singhal:** Export credit?

**Sureddy KR:** Middle-East and all where you supply.

**Arun Paliwal:** Within CC limits we have supplement of CCFC, etc., we are availing this.

**Sureddy KR:** Okay, there the rate of interest would be much lower?

**Arun Paliwal:** Of course, you get an arbitrage of around 2 to 3% today.

**Moderator:** We have got a question from the line of Chinmay Garg from Dron Capital. Please go ahead.



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Chinmay Garg:**

I had a question about the distribution in the Consumer Durable business. Now first of all I would like to understand that where is the sales essentially coming from, is it coming from 2<sup>nd</sup> and 3<sup>rd</sup> Tier towns as what we have been reading in your old conference call and your annual reports. The issue is going forward are you going to get into 1<sup>st</sup> Tier towns, metros or you are going to send this distribution more in the 2<sup>nd</sup> Tier towns so what is the distribution plan in the Consumer Durable business.

**Nipun Singhal:**

This is an excellent question. Metros are a hard nut to crack because a) The consumer is more brand conscious, b) The cost of awareness or advertising in metros is much higher and the dealers also are more demanding. So our strategy was to move from out to in.. we were initially focusing on the Tier-II, Tier-III where the dealers are less demanding, where the customers are less brand conscious and the cost of advertising also is cheaper. So we started off with Tier-II, Tier-III where we consolidated and we have grown in market share terms but clearly there is a limitation to how much we can grow in Tier-II, Tier-III so you can already see from the last almost one year and more pronounced in this year we have already started focusing on metros. Our market shares for this year have grown in metro cities, our spend in English dailies have increased because like the Time of India and all these publications are very expensive and this was the first year in 2015 where Lloyd has actually spent money on Time of India which is a metro newspaper. Similarly the spend on marketing are going to be more and more metro-centric we have partnered with movies for cinema advertising in metros, we have gone for television channels which are metro channels for example we have taken all the English news channels that we were earlier looking at only Hindi news prior to 2015. So these are the kind of steps we are taking.





*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Chinmay Garg:** Is there any compromise that we need to make on working capital or on margins to penetrate metros?

**Nipun Singhal:** The compromise at present will not be there because the brand has reached a certain stature. Had we wanted to enter metros three years back we would definitely had to give part of the pound of flesh but at the current level where the brand has reached I don't see that we are going to compromise.

**Chinmay Garg:** Correct. And also you have an online tie up as well with Flipkart as I heard on the call.

**Nipun Singhal:** Absolutely we are there on Flipkart and we are also promoting our own online website [www.myllloyd.com](http://www.myllloyd.com). So we believe that if there is price parity I am sure consumers would like to buy directly from the company online.

**Chinmay Garg:** Correct one last question about you had this Lloyd Luxury as a label or a brand that you want to promote what exactly the strategy there?

**Nipun Singhal:** The strategy for Lloyd Luxury is to provide and showcase a separate range for the premium customers like HNIs.

**Chinmay Garg:** Correct, I think that is a very good stand.

**Nipun Singhal:** It's not about middle class products we have Lloyd Luxury where we can give best in class, best in services and best in technology but at a price.

**Moderator:** Thank you. The next question is from the line of Chirag Sethalvad from HDFC Mutual Fund. Please go ahead.

**Chirag Sethalvad:** Sir what would be the capacity that you have today in ACs?



*Lloyd Electric & Engineering Ltd.  
May 29, 2015*

**Nipun Singhal:** 600,000

**Chirag Sethalvad:** Okay, so you are full up as you mentioned earlier in capacity.

**Moderator:** Ladies and gentlemen due to time constraint that was the last question. I now hand the floor over to Mr. Salil Utagi for closing comments.

**Salil Utagi:** Thank you management, thanks participants. Operator you can close the call now.

**Moderator:** Ladies and gentlemen on behalf of Systematix Institutional Equities that conclude this conference. Thank you for joining us and you may now disconnect your lines.

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