



“Lloyd Electric and Engineering Limited Q1 Financial Year 2016 Earnings Conference Call”

August 14, 2015



ANALYST:

MR. SALIL UTAGI - SYSTEMATIX SHARES & STOCKS (I) LIMITED

MANAGEMENT:

MR. NIPUN SINGHAL – CHIEF EXECUTIVE OFFICER OF CONSUMER DURABLE BUSINESS - LLOYD ELECTRIC AND ENGINEERING LIMITED

MR. MUKAT SHARMA – CHIEF FINANCIAL OFFICER - LLOYD ELECTRIC AND ENGINEERING LIMITED

MS. ANITA KAKAR SHARMA - COMPANY SECRETARY - LLOYD ELECTRIC AND ENGINEERING LIMITED



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Moderator: Ladies and gentlemen, good day and welcome to the Lloyd Electric and Engineering Q1 FY 2016 earnings conference call, hosted by Systematix Shares and Stocks. 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 hand the conference over to Mr. Salil Utagi. Thank you and over to you Sir!

Salil Utagi: We welcome you all to Lloyd Electric and Engineering Q1 FY 2016 results concall. We have with us Mr. Nipun Singhal – CEO of Consumer Durable business, Mr. Mukat Sharma, CFO of the company and Ms. Anita Kakar Sharma, Company Secretary. I will now hand over the call to Ms. Anita Kakar for opening remarks. Over to you Anita!

Anita Kakar Sharma: Thanks Salil. Welcome all to the Q1 FY 2016 conference call. Mr. Salil has already introduced you to the management team. Before I take you through the financial highlights for the Q1 FY 2016, 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 am delighted to once again come and give you the brief on the operations of the company. For those of you who have not heard about the company’s operations earlier, I will quickly wrap up the three main segments of the company, a) Consumer Durable Segment b) OEM & Packaged Air conditioning c) Heat Exchangers & components.

We are delighted that in Q1 FY16 we have done well across all segments and the total sale for the quarter has been Rs.729.34 Crores for the



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quarter-ended June 30. To break this down between the three segments I just outlined, the biggest contribution of around 63% of the total sales has come from the consumer business, which is Rs.459.25 Crores. The OEM and package business contributed 17% at Rs.126.44 Crores and the heat exchanger and radiator business constituted 20% at Rs.143.65 Crores, so that is the segment wise breakup of the topline.

I would like to go a little more in detail within consumer business since that is the biggest part of the pie. We find that within consumer business, the AC sales alone constituted to about Rs.395.81 Crores. You know that April, May, June is the air conditioning season and therefore the AC sales has been more dominant in the total sales in consumer durable followed by LED TV at Rs.45.95 Crores and washing machine at Rs.12.04 Crores and other products was Rs.5.45 Crores, which is the breakup of Rs.459.25 Crores.

The growth has been substantial in the consumer business for Lloyd as compared to some of our competitors, I think you read the newspapers, you might found that leading brands like Voltas and others have posted moderate growth or flat growth in this quarter, but I am pleased to tell you that Lloyd has had a very good quarter in air conditioner sales and is primarily because of the efforts that we have been putting in for the last two to three years in focusing on customer delight.

Customer delight has a part to increasing market share is a very slow burner, you never see immediate results when you adopt customer delight route to increase market share, so the work it will be doing with our Khushiyon Ki Guarantee campaign since the last three years that has probably started kicking in right now with customers preferring to buy Lloyd products and the assurance of having after sales service and best quality.



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Looking ahead on the sales in Q2 and Q3, I feel that of course AC sales will substantially come down as it is off-season for air conditioners, but washing machines again we are finding very good growth in July and August with our Unisex campaign, some of you might have seen our TV ad which is a very different approach on the entire washing machine category. We have talked about our technology, but we have approached the customer in a very different route talking about the unisex washing machine.

In LED TV also we were working up with our creative agency and we will come up with something for Diwali for LED TV that has not been finalized as of now, things are in progress there. In Kerala, I am pleased to tell everybody that we have signed the superstar in Kerala Mohanlal.

Lloyd this year has been fortunate that we have been able to sign the biggest superstar of Kerala Mr. Mohanlal and on the 11 August we had a press meet in Kerala, we had a dealer meet in Kerala, which was attended by more than 750 dealers.

On the OEM and package business, there is mixed news. On the domestic front, we have grown but on the export front we have dropped from Rs.44 Crores to Rs.20 Crores. This export drop is mainly in CIS countries where there has been a real turbulence because of the Ruble depreciating very drastically so that has led to lower exports on the OEM front, but on domestic air conditioner manufacturing front, we have posted growth on the OEM business as well likewise there has been substantial growth on the coils and radiator business.

The Net sales have grown from Rs.117.5 Crores in Q1FY15 to Rs.143.65 Crores in Q1 FY16 in Heat Exchangers & Components segment. The railway package business contributed to Net Sales of Rs. 14.21 crores as against Rs.8.32 Crores during the corresponding quarter



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of the previous year. So this is a broad overview of how the total standalone sales stood at Rs.729.34 Crores for Q1 FY 16

Anita Kakar Sharma: Thank you Sir. I will quickly take you through the financial highlights. Due to the robust performance by the consumer durable business, the total standalone revenue increased by 37% to Rs.729.34 Crores as against Rs.533.63 Crores during the same period last year.

The operating profit excluding the non-operating income for the quarter increased significantly by 33% to Rs.73.22 Crores as compared to Rs.55.06 Crores in Q1 FY 2015. The financial expenses increased marginally by 6% to Rs.22.75 Crores as compared to 21.48 Crores during Q1 FY 2015.

The tax expense for the quarter was Rs.9.09 Crores as compared to Rs.5.5 Crores during the Q1 FY 2015. Consequently the profit after tax grew by 55% to Rs.34.2 Crores from Rs.22.02 Crores in QY FY 2015. Earnings per share for the quarter stood at Rs.9.68, it was Rs.6.23 in Q1 FY 2015. On the overseas subsidiaries, the LCE and Janka contributed to total revenue of 12.5 million and with an EBITDA of 0.40 million; however, the EBITDA was impacted because of the unfavorable exchange rate of Euro versus the USD.

We are now closed with the financial highlights. We are now open for the questions and answer session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line Gaurav Sanghavi from Bajaj Alliance. Please go ahead.

Gaurav Sanghavi: Good morning. I just wanted to understand more on the consumer durable segment, there we have reported very strong number, so what



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has been the strategy of the company in terms of increasing the market share and orders led this kind of a growth, have we increased the distribution network and if you can just throw some more light on each of the segment in AC and LED and other products that would be useful?

Nipun Singhal:

Good question, actually it is all the factors. I think on the platform of primary sales that is from us to dealer, yes we have expanded our dealer network. We have been doing that for the last many years, we have been expanding our dealer network. The second factor could be in terms of our visibility, our ad spent have gone up significantly. We have been spending money more smartly and wisely in the right medium in the right areas and also the underlying thing of secondary sale, which I talked about is the whole brand promise or the brand philosophy of offering Khushiyon Ki Guarantee. Our message to the consumer ensuring his happiness through the KKG code has somewhere touched upon the consumer's heart and he has believed in our brand promise and he has brought into our proposition. So I would say the three things, which we have done, one yes we have increased distribution network by about 15%. Visibility is another thing. Many people used to tell me that you are not that visible. You have a very small share of voice as compared to the other brands, which would spend significantly more money. This year if you look at spends of all the major brands. I do not think you would say that Lloyd has had a very low share of voice. We have been heard. The spends we have done are adequate to be heard and the third and most important thing you may have products on the shelves of dealers, but eventually it is customers who will pick those products off the shelf and that happens because the customer now believes that this brand is a good brand, it will offer me good products and good after sale service. So the buying of the customer is really what is responsible for this number.



Gaurav Sanghavi: Sorry for the repetition. Can you just repeat the number of AC, LED and washing machine and consumer durable?

Nipun Singhal: We sold 101,039 units of AC in the last year in April to June 2014 and in the current quarter, we sold 191,571 units ACs. The quantity for LED TV's was 35,199 units and washing machines 13,435.

Gaurav Sanghavi: In terms of revenue if you can just share the breakup?

Nipun Singhal: I have given this earlier, but I will repeat it for you. AC is 395.81 cr, LED is 45.95 cr., and washing machine is 12.04 and other home appliances 5.45 cr.

Gaurav Sanghavi: If you can just give this corresponding quarter number, June 2014 number?

Nipun Singhal: Corresponding was in value terms, it is 206.81 cr. for AC's, 52.77 cr. for LED TV's and 10.38 cr. for washing machine and others 3 cr.

Gaurav Sanghavi: Sir just another question is on working capital side, it seems that we have managed working capital pretty well and our interest cost has actually come down quarter-on-quarter, so if you can just throw some light on that, what is the strategy going forward?

Nipun Singhal: Some of you have been on the concall earlier in the previous quarter and we have spoken about our efforts to bring down working capital. We had indicated to investors that we are in the process of the growth phase where we are giving softer terms to our dealers in terms of higher credit period. We are keeping higher inventory levels, so that we can cash in the opportunity if it so arises. Fortunately for us, we had planned for good numbers and we were able to sell good numbers, so in this quarter April to June, we have been able to bring down our working capital debt from Rs.593 Crores to Rs.471 Crores. So that has been the reduction in



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our working capital debt and as a consequence, the interest payout has also been less because of the working capital debt have been reduced.

Gaurav Sanghavi: So going forward one can expect this interest cost to remain stable around this number, 20 to 24?

Nipun Singhal: I would not hazard that because the thing is like I explained to you the main impact has come from inventory. It has not come from receivables. In consumer durable, we used to have about 120 days of inventory and that has dropped substantially to 90 days because the inventory we had got sold. Now had this been a bad season or has the response from the market not been good, we would have been that 220 days of inventory, so it is very difficult to predict what would happen in the market place, there are so dynamic factors that are there. For me to say that this is going to be here to stay, I am not sure. The efforts are there to see that yes we will work towards bringing down working capital and probably for the whole year, but within the quarter it depends on say like for example looking at Diwali season I am planning a very big number, if like this quarter we have a very good secondary sale and it is as good as Q1 then again inventory would be at a very low level in September; however, if we are left to the inventory let say the sale is also good, Diwali picks up in November because Diwali is in November 13, then we would probably see that the inventory is very high on September 30th and the next quarter we will presales. So on a quarter wise it is very difficult to exactly predict. The long-term trend is yes, lower working capital.

Gaurav Sanghavi: How is the secondary sales at the dealers level, have we seen any inventory buildup at the dealers level because of the unseasonal rainfall or we have increased our market share in overall secondary market too?



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Nipun Singhal: Our market share for sure has gone up drastically. Again if you see the new GSK report, ORG or anything, you will find Lloyd is today now number 3 brand in India, so we have definitely gained market share and that is clear. The only thing which is I am getting to hear from the market is that brands like Voltas and some leading brands their stocking is there in the market.

Gaurav Sanghavi: But we do not see lots of inventory buildup for us?

Nipun Singhal: For us I do not think there is too much of inventory buildup especially in the market place. We have been able to do secondaries.

Gaurav Sanghavi: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Sagar: This is Sagar here. Sir firstly on your consumer durable sales, we have seen a sharp increase in AC business, which is the most profitable for you in terms of within consumer durables, so wanted to understand why your margins from 9.2 in Q1 has come down to 8.1. I understand that probably it is because of ad expenses going up drastically, so if you can quantify what was the ad expense last year as compared to this year and also is there any other impact in consumer durables because the margins are down?

Nipun Singhal: Like you said it is correct, you get the numbers correctly, the ad expense was about Rs.10.11 Crores in the corresponding quarter, which is more than double to Rs.20.57 Crores one factor. The other factor is we had an exchange loss in this particular quarter of about Rs.6.5 Crores.

Sagar: There was an exchange gain last year or what was it?



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Nipun Singhal: There was no exchange gain last year, so this year we had a hit of Rs.6.5 Crores on exchange loss. You can see the rupee has been slowly depreciating.

Sagar: My second question was coming to that only that with China devaluating, Yuan and plus India's currency depreciating, what would be the impact of that since we import most of the other consumer durables going forward and are we seeing any price cut or price hike because of that?

Nipun Singhal: At the moment, no knee jerk reaction is planned because it has only been three days since we have seen this free fall of the rupee. We are talking to our Chinese suppliers because if their currency is devalued technically they should reduce their prices in dollar terms. So the first attempt will be to push our suppliers in China to reduce the dollar prices and pass through to us the benefit of the weaker Yuan, if that does not happen, if we do not see the pass through happening from the Chinese suppliers then as an industry we will have to increase prices. It will not be only affecting Lloyd, it will be across the board because I would say all companies not most, all companies are importing compressors, there is no capacity in India, and all companies are importing LED panels so what affects us affects them.

Sagar: Then basically there will be some kind of impact in terms of quarter lag, so may be probably in this quarter you will not be able to take price hike, but then there will be some forex hit, which will come in Q2 as well in case they do not reduce the dollar prices?

Nipun Singhal: Possible.

Sagar: But then we are sure that we will increase the price as soon as our cost of purchase goes up right?



Nipun Singhal: Absolutely, everybody does it, all the company, nobody has those margins to absorb these kind of a hit. So it is matter of time when we get the replies from the suppliers that are they going to reduce the dollar prices and if they are able to partially also reduce then we will partially increase. So it is all dynamic situation right now, it has been three days since we got this information that China is devalued.

Sagar: Then the forex hit was Rs.6.5 Crores was in Q1, but in Q1 then there was no major impact right, I mean the currency devaluation and India's currency depreciating has also happened in the last one week itself?

Nipun Singhal: Absolutely, but you see even in Q1 if you see we moved more towards the 63.85, 64 band, if you look at the dollar rupee, it has not been a very substantial devaluation like now, so if you look at my exchange loss is only about Rs.6.5 Crores, which is 1% about 0.60 paise. So the hit is not Re.1 or Rs.2.5, it is about 0.60 paise 1%.

Sagar: Have we increased the prices of AC recently or no?

Nipun Singhal: No. We have not increased the prices. It is off season and AC prices are going to be tough to increase, there is stock lying in the market of competitors, so this is going to be tough for AC prices to go up, but you might find that washing machine and TV prices will go up because TV is going to be in demand, washing machine is going to be in demand in the coming festive season.

Sagar: What would be your full year ad expense budgeted for the year FY 2016?

Nipun Singhal: We have budgeted around Rs.55 Crores for the full FY.



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Sagar: So out of the Rs.20 Crores you have already spent about Rs.35 Crores more in the next three quarters. What would be your market share in AC now, last quarter it was about 9% right?

Nipun Singhal: Last year it was 8%. Last quarter it will be about 11.5%.

Sagar: What would be now?

Nipun Singhal: I am talking about April, May and June it is about 11.5%.

Sagar: So, basically you have improved your market share by about 350 BPS from 8% to 11.5%?

Nipun Singhal: Absolutely right, our market share has gone up from 8% to 11.5% and we look to sustain this market share. We do not look to grow this in this year, so probably the year-end number will be around 11%, 11.5% only.

Sagar: We were also talking about sales service centers across the country putting up so that to capture on the growth opportunity over there since most of the other players are not having their presence, so where are we in terms of that in terms of the strategy for putting up more service centers across the country?

Nipun Singhal: We have been constantly increasing our own work force in service because to deliver this kind of bands promise Khushiyon Ki Guarantee, you have to be on your toes especially in after sale service. We have expanded our inbound call centers to receive customer complaints, as our volumes have increased, so today we have six inbound call centers at different locations. So it is easier for customers to atleast reach the company. The call is not busy all the time, etc., so that is the first step we have taken. Thereafter what we have done is we have increased our technicians from 300 to 570 technicians on Lloyd payroll. This has not happened in this quarter. It has happened since January. This is not



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telemarketing. This is again back to service. What happens is when we do not get the KKG code from the customer, we have 24 agents in our office in Delhi, who are calling the customer and asking the reasons for not giving the code. Now if he says that the code was not given because of reasons like he was not available, no one asked him, he has deleted the message or something like this, we forget about it because the customer is eventually happy, but there are still cases where customers are not happy and they are not given the code and these 24 people now act as an escalation body to ensure that these customers then eventually become happy.

Sagar: That is great Sir. What would be the total cost that we would incur on all these three things put together in terms of additional incremental cost because earlier we were not having all the three things right in terms of increase in number of technicians, inbound and outbound call centers, so what could be the total increase in terms of cost?

Nipun Singhal: I can tell you the per month number because mostly it is salary, the offices in all we use our own premises, so there is no cost in terms of rent, etc., so the salary increase is about 6 to 7 lakhs per month because all the other infrastructure is already available, it is not like we hired some new space, we have done something, these are all within our own premises, we added work stations, etc. So, significant cost as such

Sagar: Sir just to confirm the number that you mentioned YOY for AC, TV, and washing machine, it was 206.81 right, AC?

Nipun Singhal: Previous year was 206.81.

Sagar: On your washing machine capex we were targeting to put up our own facility for that, so where are we in terms of that and how much are we planning to put up?



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Nipun Singhal: As I told you last time also this will be taken a decision, we have taken somewhere in August-September this year for next year, it is never to be for this year. So I think for next season, for next July, so I think next month we will finalize the capex plan. As of now we have not finalized that.

Sagar: What would be your capex this year?

Nipun Singhal: Nothing substantial washing machine assembly line capex is not very substantial. We are yet to finalize the capacities.

Sagar: Except washing machine then there is no other capex, it will purely be maintenance capex?

Nipun Singhal: There are maintenance capex like for example debottlenecking of some capacities for increasing our AC production, we are going to make indoor units. We are putting of some additional AC capacity for assembly in Ranipet factory.

Sagar: What will be your debt level for as of June?

Nipun Singhal: The long term debt?

Sagar: Total debt?

Anita Kakar Sharma: The total is Rs.586 Crores.

Sagar: It has come down right?

Anita Kakar Sharma: Yes, it has come down.

Sagar: And any plans to raise money? Last question, any plans to raise money from the capital market?



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- Nipun Singhal:** I think this is an ongoing thing as of now for the capex we are sufficiently covered with our internal accruals.
- Sagar:** That is it from my side. I will come back in the queue. Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line Kunal Seth from Prabhudas Liladher. Please go ahead.
- Kunal Seth:** Good afternoon Sir. Quickly, if you can give some sense of what is your dealer network in terms of spread and in terms of geography, which are your key markets?
- Nipun Singhal:** Initially, when we started we had a conscious decision to focus more on non-metros. Primarily because in metro's people are much more brand conscious, the cost of operations are much higher, the cost of creating visibility in metro is significantly higher. So traditionally we came in from outside from out of metros, Tier 2 and Tier 3 and we grew strong there. Having reached a very good market share and a very good penetration in non-metros in Tier 2, Tier 3. In the last one and one-and-a-half years we have been starting to gain ground now in the metro cities. We have been putting money in metro airports, we have been putting money in publications like Times of India. 2014 was the first year when we advertised in Times of India and Times of India is the very important publication for Bengaluru, Bombay, Pune, Delhi, so we would never do English newspapers in metro cities, because they were very expensive. So in the last one and one-and-a-half years we have started to make inroads into metros, but there is a still lot of potential for us to grow in metros. And that is why it is going to be the focus in the next two to three years, how to come to the all India average of a metro versus non-metro mix. Today we are weaker in metros and stronger in non-metros. To give you a geographical spread in terms of states it is



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very peculiar, but Seemandhra is very strong, this is a new Andhra Pradesh, not including the Hyderabad and Telangana. Kerala is the very strong market. Gujarat is one of our best markets. Rajasthan is a very strong market. Haryana is very strong for us. Punjab is very strong for us, so these will be strengths. Our weakest two markets is Tamil Nadu and West Bengal and the rest almost in line with our all India average.

- Kunal Seth:** What will be in the number of dealers and touch points currently?
- Nipun Singhal:** The last quoted on June 30 was 7540 odd but I am sure it has increased from there.
- Kunal Seth:** So dealers or touch points?
- Nipun Singhal:** Dealers.
- Kunal Seth:** Okay and touch points?
- Nipun Singhal:** Touch points, I do not have number right now.
- Kunal Seth:** We mentioned that we have approximately 11% market share in ACs up from 8%, so 350 BPS gain in one quarter. Any sense of who is loosing market share in the AC market?
- Nipun Singhal:** I think the Koreans are the ones who have been consistently losing market share over the last three years. It is happened in this quarter. Both LG and Samsung have been consistently losing market share. They have gone out of window ACs and their focus is not so much on the air conditioning business.
- Kunal Seth:** We learn that because of the weak overall season this quarter, there has been some inventory sitting for some of the larger guys, which you also mentioned. So are you seeing some pricing pressure or price cuts from this larger guys?



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Nipun Singhal: Even if they do resort to price cuts it would not least to increase in sale, because what has happened is that the money has to flow what we call rolling. If I am sitting on the 100 ACs, no matter what 2% or 5% discount you give me and I am not going to buy another 100 ACs, because it is a question of cash flow. So today price cuts are not going to help. The only thing you can hope for and I have been telling people used to pray is that it starts becoming hot again because in the September, October is the second season in south and west. Saving grace says if the monsoon ends in August quickly and it again becomes hot in September, October, we could definitely see the inventory being cleared out. So all of us are really watching the second season.

Kunal Seth: Thank you Sir.

Moderator: Thank you. The next question is from the line of Lakdawala Sufiyan from Lalkar Securities. Please go ahead.

Lakdawala Sufiyan: Madam, I wanted to know what is the current debt and what are your plans for reducing the debt?

Anita Kakar Sharma: The current debt is Rs.586 Crores.

Lakdawala Sufiyan: So what you plan to reduce the debt by the end of the year or in coming two to three years?

Anita Kakar Sharma: We would see debt remaining more or less at the same year as compared with previous FY.

Lakdawala Sufiyan: Can you give the names of the clients in OEM and packaging? Who are our clients in OEMs and packaging?

Nipun Singhal: In OEM business, we are selling to brands like Voltas, Whirlpool, Godrej, Onida, Videocon, so we are selling to whole host of companies



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in the OEM business. The package AC business is more to in Indian Railways, to the rail coach factories.

Lakdawala Sufiyan: Are there any orders in the pipeline from Railways?

Nipun Singhal: Yes, these are yearly tender business, for the next year we have got the contract.

Lakdawala Sufiyan: Thank you.

Moderator: Thank you. The next question is from the line of Sudhabshu Madan from Locus Investment. Please go ahead.

Sudhabshu Madan: Good afternoon Sir. I had couple of questions. One was on working capital in the consumer business. So, I just wanted to understand what is the inventory and the debtor level in absolute today for this business?

Nipun Singhal: You are saying number of days or absolute Crores rupee value?

Sudhabshu Madan: Inventory Sir?

Nipun Singhal: The number of days has dropped from 120 days to 90 days.

Sudhabshu Madan: Is it for the inventory?

Nipun Singhal: This is for inventory, yes.

Sudhabshu Madan: Okay and this is on sales or COGS?

Nipun Singhal: This is on COGS.

Sudhabshu Madan: And receivable?

Nipun Singhal: I do not value inventory at sales. Then people will remove me from the company. What is the question is that? Inventory is always on COGS. I



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was surprised with the question. So 120 days is down to 90 days for inventory and for the receivables we are almost at a similar level not a very significant change, it is around 45 days.

Sudhabshu Madan: Sorry.

Nipun Singhal: 45 days.

Sudhabshu Madan: The increase in capital employed in sequential quarters about Rs.257 Crores that is all gone where has that gone, what is that?

Nipun Singhal: Can you repeat that question?

Sudhabshu Madan: Capital employed is increased at Rs.230 Crores in fourth quarter 2015, to 257 Crores, so that movement is attributed to?

Nipun Singhal: I have to check this number

Sudhabshu Madan: ok

Sudhabshu Madan: Except Sir you mentioned that days are down from 120 to 90, so may be it is just that has happened in one quarter, over what timeframe has the days come down from 120 to 90?

Nipun Singhal: I am talking about 120 was the number of inventory days as on March 31, 2015 and as on June 30, 2015 it was 90.

Sudhabshu Madan: What is the debtor level for consumer durables have been as of March?

Nipun Singhal: March debtor level was 60 days and that is down to about 47 days as on June 30.

Sudhabshu Madan: The next question is on the LED business, I had some numbers from 2015 and I was looking at the realization for the same?



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

Sudhabshu Madan: I am saying that I have a few numbers for the LED business in 2015 what I have is that there were 228 Crores of LED sales for about 163570 units?

Nipun Singhal: For the year, correct.

Sudhabshu Madan: Which is about 13900 in terms of realization and this quarter you said is Rs.45 Crores of sales for 35000 units?

Nipun Singhal: Yes, the average realization is 13054.

Sudhabshu Madan: What is the reason for driving the realization down?

Nipun Singhal: It is not downtrend in prices. I will explain to you. The average for the year is 13980 and for the quarter it is 13054. It is to do with product mix. You see in April, May and June, we ran out of 40, 50-inch sizes. The 40-inch and 50-inch stocks were not there, so we basically could not sell 40, 50-inch, because we did not have stock of 40, 50-inch. And therefore we were selling the smaller sizes whatever was available and as a result there has been a drop in the average realization, but if you see in the current quarter, the quarter going ahead and for the whole year, it will be the almost at the same ASP as what was for the previous year. In fact ASP might go up, because there is a preference towards bigger screen sizes from the customer.

Sudhabshu Madan: That was the follow-up question I had was exactly that, because if you look at the ASP in FY 2014 that is one of the reason of 17000. Was that again a mix?

Nipun Singhal: If you are going way back to 2014, in LED TV if you see the price has been declining since the last five years. So if you bought a 32-inch TV five years back, it was Rs.60000 and today is Rs.20000. So there is



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significant price reduction happening in this technology over the last five, seven years. But say if you are looking at March 31 versus June 30, the 13980 coming to 13000 is not because of substantial reduction in panel prices or component prices, it is purely because of product mix. My 40-inch stock and our 50-inch stock was very little compared to 32, 24 and other screen sizes.

Sudhabshu Madan: Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: Thank you for opportunity. So why is your debt level is so high?

Nipun Singhal: I disagree with you Sir. It is not at all high.

Pritesh Vora: As compared to the other competitors?

Nipun Singhal: Long-term debt stands at Rs.115 Crores and working capital debt is Rs.471, I do not see this to be a very high level. At about over Rs.2000 Crores sale level, this is not a very high debt.

Pritesh Vora: How do you see the debt level going in coming years?

Nipun Singhal: At similar levels.

Pritesh Vora: I want to ask another question, what is our competitive advantage in the market place? What do you think is our competitive advantage?

Nipun Singhal: Excellent question. This is exactly what we as marketers have to keep asking ourselves that how are we different. How are we going to be different? How are we going to want the customer to buy our products and our brands? In terms of product there is a very little differentiation today left in any product whether you take AC or LED TV or washing



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machine. LED TV, people are talking about 4K, we have 4K, we have curved TV, we have all the screen sizes from 19 inch to 84 inch. Similarly in ACs, today there is a standard labeling program where you have two-star, three-star, five-star, everybody has all these capacities and all these star ratings. On product differentiation, there is not much scope left for any brand. The only thing you can rely upon is good quality, which means the product life will be long. In terms of technology there is nothing really to differentiate. On price, yes some brands like to differentiate on price by offering lower prices and lower prices. I do not think that is the long-term strategy. Because when you are using price as a platform to tell the customer, you are virtually bribing the customer to buy your brand and the customer also starts thinking that may be there is a compromise in quality that is for you are going for price. So we are clearly not looking at technology or price as a platform instead three years back we brainstormed and we decided to use customer delight as our differentiator. For the last three years, we have been working on this Khushiyon Ki Guarantee and we have been working on bringing our back-end of after sales service very strong. I will give you two little small examples to justify my point. Let us look at brand like Indigo. What is the Indigo differentiator? They are flying from the same Delhi Airport to the same Bombay Airport, they have the same aircraft, they have the same everything, in fact they do not give free food. They charge for food. The airhostess is not so looking good in my opinion. Kingfisher had must better looking airhostesses. Why they are number one? Why are they at 40%, because they understood the customer psyche that customer does not want all these things, he wants to be on time every time. So Indigo said what does the customer really want. He wants to be on time every time. So let us focus on this one promise on time every time and today Indigo is the only profitable airline, it has number one 40% market share and the big giants Vijay Mallya's Kingfisher is bankrupt and Jet Airways is number two or number three.



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Pritesh Vora: Okay understood. So basically you are saying the brand promise basically?

Nipun Singhal: The brand promise of delivering customer delight is why today I believe Lloyd is here and why I believe Lloyd will be even bigger than what it is today.

Pritesh Vora: Last question, what are the next three to five years if I have the horizon of up to five years? What do you think how you can grow on basis of geography or on the product? What is there which is taking to the higher level?

Nipun Singhal: All of what you said. On basis of geography I will start first. I just explained that metro cities is where we are weaker and Tier 2, Tier 3 were stronger. So in metro cities, we have just started focusing. I feel we will grow just because we will catch up to the market share we have in non-metro cities, so this is one opportunity. Second is that we are strong in ACs, we have come to 11.5% market share in ACs, but in TVs and washing machines we are 2%, 3% so huge potential in TV and washing machines. We plan to add refrigerator. We plan to add other products of air purifiers. So adding products we will get huge growth. The third thing is the overall demographic of India, the macro picture. The market size is going to grow, because India is 1.2 billion people and our penetration levels are very small right now. We are not a mature economy like USA or Europe. There is still tremendous amount of potential for India to grow and the market size to grow. So these are the three factors where I believe that for the next at least 10 years. The growth should not at all be affected.

Pritesh Vora: Thank you very much. Wish you all the best.

Moderator: The next question is from the line of Deepak Narnolia from Antique Stock Broking. Please go ahead.



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Deepak Narnolia: Good afternoon Sir. I had just couple of questions. Number one is about your market share. If I am wrong you correct me, but generally 75% of this AC market and consumer durable market is concentrated in metro cities?

Nipun Singhal: That is not correct at all. I will define in metro.

Deepak Narnolia: Sorry to interrupt you Sir, not metro cities, the bigger cities.

Nipun Singhal: The top 13 cities you are talking about?

Deepak Narnolia: Yes, top 13 cities and 25% is the Tier 2 and Tier 3 cities correct?

Nipun Singhal: Not top 13 cities.

Deepak Narnolia: 25% is in Tier 2 and Tier 3 cities correct?

Nipun Singhal: Correct.

Deepak Narnolia: Your major presence is in Tier 2 and Tier 3 cities?

Nipun Singhal: No, I said we are weaker in metros.

Deepak Narnolia: Only the four metros?

Nipun Singhal: Only the six metros.

Deepak Narnolia: Okay only the six metros.

Nipun Singhal: For example Pune, Pune is number seven in India, Ahmedabad is number eight in India or some people like to think Ahmedabad is 7 and Pune is 8. I know this by heart that is why I can tell you. In Pune, we have very strong, Ahmedabad is very strong, and Surat is very strong. In that 7, 8, 9, 10, 11, 12, 13 we are extremely strong. It is only in the six metros is where we are weaker.



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Deepak Narnolia: Okay and how much will be the market size of these six metros in composition term?

Nipun Singhal: 40%.

Deepak Narnolia: You are weaker in 40% market and 10% share is generally coming from 60% market?

Nipun Singhal: No, I will give you the exact data, because this is what I am evaluating all the time. In 40%, we have 22% of our sales happening. I will give you the exact data. The six metros constitute to 40% of the total sales and we have 22% of our sale coming from six metros. Six metros for the market contributes 40% and Lloyd contribute to 22%.

Deepak Narnolia: For Lloyd 22%?

Nipun Singhal: That is right Sir.

Deepak Narnolia: Generally in this 60% of the market, you have around of 15% to 18% market share you can say?

Nipun Singhal: Absolutely on aggregate basis yes. In South Gujarat, we would be well over 25% market share.

Deepak Narnolia: Next question is about this washing machine. Your washing machine sales in this quarter were Rs.45.95 Crores correct? LED?

Nipun Singhal: LED is Rs.45.95 Crores, yes.

Deepak Narnolia: It was Rs.52.77 Crores last year?

Deepak Narnolia: Corresponding quarter last year yes.

Deepak Narnolia: Product mixing?



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Nipun Singhal: The average sales price in quantity terms we have increased from 32094 to 35199, so quantity has increased by 10%, but because the average sales value is down from 13000 odd to 13054 that is why you are seeing the reduction in value terms.

Deepak Narnolia: How is the traction in LED like, AC is really doing, you are doing really well and you want to maintain your market share at this level in this year and probably you will grow in line with the market growth, but the incremental growth is likely to come from the other product segments, it is important to how those products are doing like in this LED, how is the traction, what is your present market share like?

Nipun Singhal: Last year, we sold 163571 LED TVs.

Deepak Narnolia: This was an annual?

Nipun Singhal: This is FY 2014 - 2015. This corresponds to a market share of about approximately 2.5% it could be 2.7, it could be 2.4 about 2.5%. My worst estimate for the current year is that on 8 million-market size, in 2015-2015, I will be at minimum 3%. This is my worst estimate. Now if I have good Diwali, if I have good World Cup, because next year, it is a very big event the T20 World Cup is happening in March in India. T20 World Cup is happening in India next year. We are fully prepared, so if we are able to catch the fancy of the consumer like we did in AC and you might see we might be 4%, 5% market share in TV also.

Deepak Narnolia: In the longer term, what is the kind of market share you are expecting from these products?

Nipun Singhal: By 2020, our Chairman has mandated that we have to be minimum 10% in every product category.

Deepak Narnolia: In all the product categories, AC you have already reached.



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Nipun Singhal: AC I have already reached. The other two I have to catch up to 10% by 2020.

Deepak Narnolia: Given that your product market share has stabilized in your expectation, so pricing will further improve and your profitability can show some improvement in AC product?

Nipun Singhal: There will be two prone to approach. First we want to tighten my working capital. Our first effort is not going to be to chase pricing, because it is just recently that we have been able to capture market share, so we want to sustain another one year, two years and cement our position. We do not want to suddenly raise prices in any of the dealers and customers feel that now they are material selling suddenly they have raised prices. So we think that we will have to wait for a couple of years. What can be done either sooner then price increase is to tighten working capital.

Deepak Narnolia: Your focus would be more on working capital reduction than on increasing the price?

Nipun Singhal: Yes.

Deepak Narnolia: One last question Sir. This Voltas has shown a decline of 5% in it sales and you have shown a tremendous growth in AC sales. So where from this difference is largely coming?

Nipun Singhal: I told you eventually what all of us do, what all are brands do. We place our proposition to be end consumer. My product is also on the same shelf as probably Voltas and LG, Samsung and many other brands. Customer like you walk into the showroom and they decide do I want to buy Volta, do I want to buy Lloyd, do I want to buy LG, do I want to buy Samsung. What has happened is the customers today have bought into a story of a brand promise of offering customer delight. It has not



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come overnight. Last three years we are doing this, we are working very hard to delight our customers.

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

Salil Utagi: Thanks Nipun Ji. Thanks Anita. Thanks Mr. Sharma. Thank you participants for attending this call.

Moderator: Ladies and gentlemen, on behalf of Systematix Shares and Stocks that concludes this conference. Thank you for joining us. You may now disconnect your lines.

Lloyd Electric & Engineering Limited

CIN: L29120RJ1987PLC012841

Regd. Office: A-146 (B&C), RIICO Industrial Area,
Bhiwadi, District Alwar, Rajasthan -301019

Corp. Office: 159, Okhla Industrial area, Phase-III, New Delhi-110020

website: www.lloydengg.com e-mail: investor.relation@lloydengg.com