"Lloyd Electric and Engineering to Update Investors on Sale of Consumer Durables Business"

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Moderator: Good morning ladies and gentlemen, welcome to the Conference Call of Lloyd Electric and Engineering to Update Investors on Sale of Consumer Durables Business hosted by Edelweiss Broking Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Salil Utagi from Edelweiss Broking Limited. Thank you and over to you Sir!

Salil Utagi: Thanks. We welcome you all to conference call with the management of Lloyd Electric & Engineering to Discuss Sale of Consumer Durables Business to Havells India. We have with us senior management of Lloyd Electric represented by Mr. Brij Raj Punj – Chairman and Managing Director, Mr. Nipun Singhal, Director and CEO of Consumer Durable Business and Ms. Anita Kakar Sharma, Company Secretary and VP Finance. Now I hand over the call to Mr. Brij Raj Punj for his opening remarks. Over to you Sir!

Brij Raj Punj: Thank you Salil. Good morning to all of you. On behalf of Lloyd Electric, I welcome you to this investor call which we have arranged exclusively for addressing the sale of our consumer durable business (CDB) to Havells India, which was announced by the board of directors at their meeting held on the 19th of February.

Lloyd has entered into an agreement with Havells India Limited, for the sale of consumer durable business together with the rights, title, interest, assets, licenses etc., including the trade mark "Lloyd" on a slump sale basis, on an ongoing basis for the enterprise value of 1550 Crores to the buyer, subject to satisfactory due diligence and closing conditions.

Post the transaction, the company's OEM business would enter into a supply arrangement for the supply of air conditioners and other products as a third party supplier to Havells India for the "Lloyd" branded product

Post the sale of CDB business, the company would focus on its B2B business of HVAC&R (Heating Ventilation Air conditioning & refrigeration) wherein the company enjoys strong market leadership. The sale of the CDB will not have any impact on the company's existing business of the air-conditioning. The company has ventured into the consumer durable segment in 2011 by acquiring the distribution network and assignment of Lloyd trade mark from its associate company, Fedders Lloyd Corporation Limited. Over the past few years, the segment revenue has grown at a CAGR of 30-35%. In the light of the changing economic scenario and due to the increasing competitive environment, the consumer durable business of the company has reached a stage where substantial capital is required to create and sustain future growth momentum by taking the brand to the next stage. The company had engaged E&Y as advisors for advising on various strategic and financial alternatives. However, after various discussions and deliberations and keeping in view the fact that the consumer business has reached a stage where immediate growth capital needs to be injected for sustaining at current level and for the next growth phase in view the high competitive environment in which the industry operates wherein other players have strong financial back up, it was decided to divest the business

The net proceeds from the sale of the CDB would be partially utilized towards downsizing the over-leveraged balance sheet by reducing the short term and long term debt and also investing in organic and inorganic growth momentum in high margin business to maximize shareholder value. The company would continue to carry its B2B business of manufacturing of heat exchangers and air-conditioners as OEM supplier to other brands in India and export markets also.

The closing is expected subject to the due diligence and receipt of the necessary regulatory approvals and closing conditions. We are now open to question and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. Anyone wishing to ask a question may press "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Ranjeet Shivram from Antique Stock Broking. Please go ahead.

Ranjeet Shivram: Good morning Sir. I just wanted to know right now Lloyd ACs and the Lloyd manufacturing OEM were ourselves. Was there any difference in the marketing margins that we charge for current Lloyd ACs and for other OEMs like Onida, Voltas, just to get some clarity, was there any difference in the marketing margins currently used to charge for Lloyd ACs and for the other brand ACs?

Nipun Singhal: Actually the contention of margin between two divisions of the company does not arrive because it is all one legal entity. So whatever was the manufacturing cost, at that cost the material was transferred to the branches of Lloyd consumer division because eventually it is one legal entity. There are no margins which are added when there is a single legal entity because eventually it is all in the balance sheet of Lloyd Electric. Going forward, yes, there will be an arms length pricing, so going forward as Mr. Punj said there will be a strategic agreement for supply. Yes, there will be the same margins added as like we do it for all other OEM brands we will be adding the margin and selling it to the buyer, Havells India.

Ranjeet Shivram: Okay. Roughly how much are these margins in terms of percentage?

Nipun Singhal: The thing is that the OEM margins are already with you. We have given the segment wise breakup and they would be at similar levels.

Ranjeet Shivram: But the margins have increased now because Lloyd consumer durable is with Havells. So going forward will that margins increase, because now we will not sell it at cost, but at some margins added to it?

Nipun Singhal: Absolutely right.

Ranjeet Shivram: Okay, thank you Sir that answers my question.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in this conference, please limit your questions to two per participant. We will take the next question from the line of Harsh Vijay Shah from Crescita Investment. Please go ahead.

Harsh Vijay Shah: Thank you. Good morning everyone. Congratulations first of all. Yesterday on Havells call we did get quite a lot of clarity about what is transferring and what is lost. So I just wanted to clarify on that, manufacturing facility from where we are manufacturing for OEMs as well as consumer durable that remains with us right?

Nipun Singhal: That is correct.

Harsh Vijay Shah: From balance sheet point of view like our working capital since now we are not going to take care of any debtors or any such sort of thing, we are going to supply it to Havells and Havells is going to pay us. So from working capital we are not bothered anymore. So apart from that from balance sheet what is getting transferred like a debt or something?

Anita Kakkar: The transaction is debt free. The short term debt is not getting transferred

Harsh Vijay Shah: That is fine, basically only working capital no long-term…

Harsh Vijay Shah: But no long-term borrowing is getting transferred right?

Anita Kakkar: the long-term borrowings would remain in the company and would not be transferred

Harsh Vijay Shah: That is great. My second question is now going forward is that right that there is no locking period in the agreement whereas Havells if they want to manufacture on their own from a year or two down the line they can very much do so, is that correct?

Nipun Singhal: Yes that is correct, they can do so.

Harsh Vijay Shah: So from Lloyd perspective, only from Lloyd perspective what is our business stance going forward? I am assuming the fact is maybe three years down the line Havells will start their own manufacturing. This is a huge part of business that may or may not stay with us down the line, but for the Lloyd perspective what is the growth opportunity that we are looking at and from where we are looking into that?

Nipun Singhal: I think if you look at all the OEM business, the nature of OEM business is that it is dependent on quality, cost, and delivery. Now this is a typical question of whether to make or buy. Now if there is a merit for making then of course we will go and make, but if there is no merit in making and if buying is preferable then obviously the customer will go for buy. If it was not attractive for people to buy then there would be no OEM business. Today there are so many brands, I do not want to name them, but you know the leading companies in India why are they buying from Lloyd today because they are getting quality, cost, and delivery. If we can maintain quality, cost, delivery then I think even Havells as a customer or Lloyd with Havells in the future will continue to buy. If you do not deliver quality, cost, delivery nobody is going to buy. So it depends on what is your quality, what is your cost, and what is your delivery with terms and that is the nature of OEM business across industries.

Harsh Vijay Shah: And just last question in extension to this is the fact that now are we the biggest OEM manufacturers in India?

Nipun Singhal: Yes.

Harsh Vijay Shah: From competition perspective are there any because we are by far leading when it comes to quality that has been seen by many players and our own brand is doing the same because we had a consumer durable growth of 40% plus that cannot be achieved so easily. Mr. Nipun you have been facing that facing that since almost last three four quarter conference calls and you have very nicely shown that also in numbers as to how Lloyd as a brand is getting increases. So regarding OEM manufacturing are there anybody else as good as us?

Nipun Singhal: I am saying there are competitors in the OEM space also. Let us first pull back a little bit and see what Mr. Punj has just outlined in opening remarks is the reason and the rationale behind this transaction. You are absolutely right, the business has been growing well. That is what he said in the opening remarks we have been growing 30% CAGR. The point that he made is that we have reached a point now that if we have to sustain and grow the consumer business from here, there is substantial growth capital, which have to be injected. Now with this substantial growth capital and already leveraged balance sheet will be further leveraged and that would impact the growth in consumer business going forward, so what has been created now is a win-win situation. The consumer business goes to Havells at a fair price so they can take this business forward multifold and we will support them by giving them the product, the technology, the quality out here, and still retain our business. We will not lose that business so it is a win-win situation. Both the parties here are immensely to gain. They have got a fair valuation, they have got a fantastic brand which all of you are talking about that this is so good. They got a financial resources they can take this brand 3x, 4x in the coming years. We also have the business parallel to supply to them. Another point I will tell you in couple of meetings with Mr. Roy, he always said as our brand has become so big, a lot of our OEM customers were weary that you have your own brand. Now when the brand is out the other customers also will increase their business with us. Look at the substantial deleveraging on the balance sheet.

Harsh Vijay Shah: Definitely that is a win-win. That was wonderful to knowing all these explanations. I will get back in the queue, I have further questions, thank you very much Nipun.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Congratulations on the closure of the deal. One question I had on the working capital, already it has been mentioned that working capital debt will be transferred. Does it mean the inventory receivable and the payable asset will also get transferred, which is included in the deal of 1550 Crores transaction value?

Anita Kakkar: The transaction is based on the enterprise value of 1550 crores on cash free and debt free basis and includes inventory, receivable and payables.

Chintan Sheth: So the existing inventory and the debtors and payables related to the trading business will get transferred which is included in 1550 Crores of the transaction value?

Nipun Singhal: The business is being sold as an ongoing concern. So, all the current assets and current liabilities pertaining to consumer business will obviously be transferred to the new entity. The division is being sold on an ongoing basis.

Chintan Sheth: Can we have that number as of December at least?

Nipun Singhal: Just now Anita confirmed that look the DD process is on. At the time of closure, the exact numbers will be arrived at and then of course we will be giving the exact numbers.

Chintan Sheth: Okay. Second question, with the deal being the trading business or the retail business is being transferred to the Havells, I need to understand how the working capital cycle will change for us from B2C business model to now B2B business model, what kind of existing customers receivable days we are actually having currently?

Nipun Singhal: Right now the picture is a blended number, which you are seeing. The basic thing to understand is that let us look at the segments in which Lloyd Electric performs right now. We have talked about the OEM segment where we will definitely benefit, (1) With the sourcing agreement with Havells. (2) With the increase in business from other customers who were earlier shy in giving us more business because we are competing with them as a brand. The next is our heat exchanger business, where we are undisputedly the number one manufacturer in India. We have also the radiator business, where we supply radiator to railways, etc. Then we have the rail business as well. So, all those businesses, which roughly are at about 1000, Crores remain in Lloyd Electric. This is the existing business plus we will add on to this the sale, which will do to Havells for their sourcing, because right now that sale is not captured because it is an intersegment sale. You cannot take it in both the segments, you cannot take it in OEM and in consumers. Let me complete that, you are asking about working capital, so what I am saying to you is that the working capital, which is required for the B2B business, will remain unchanged. There will be no difference because of this transaction. It has got no relevance to this transaction.

Chintan Sheth: Correct Sir, I just wanted to know that number, on the OEM side, on the AC side what kind of debtor days we have currently?

Nipun Singhal: The residual business like OEM and like railways, like the radiator and coils, they all have different debtor terms with the customers, so it is very difficult for me to right now give you an exact picture of what will be when we break the blend and this additional business comes in. It will not be dramatically different to what has been currently there. We have a profitable residual business. Even nine months we have reported very good numbers for the residual business. That business is still there. The factory is all there. This is the additional business, which we are going to get, plus apart from the additional business we are getting this money, which will help deleverage, reduce our interest burden, and also provide spare capital to invest in high-margin areas that is what Mr. Punj was saying in the opening remarks.

Chintan Sheth: That is well understood. As of March 2016, we had 184 days of net working capital cycle so that will substantially improve or it will not materially change from here onwards?

Anita Kakkar: No. I would like to add out here. That was at the company level. At the time of the closing of the deal, the working capital, which is pertaining to the consumer business, will move out and the residual working capital, which would be left, would be the B2B business. So, I think you just wait and watch for that numbers. We will be working out all those numbers for the carved out entity.

Chintan Sheth: Okay, thank you.

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

Chirag Setalvad: What will be the tax rate payable on this transaction?

Anita Kakkar: We are evaluating the most tax efficient structure.

Chirag Setalvad: So madam whatever working capital debt gets transferred, let us assume working capital of 200 Crores get transferred then this 1550 you will reduce it by that 200 Crores right?

Anita Kakkar: Yes,

Chirag Setalvad: And madam can you breakup FY2016 your capital employed total?

Anita Kakkar: As we mentioned even last time as well, it is not feasible for us to breakup of capital employed segment wise since assets deployed are interchangeably used across various segments.

Chirag Setalvad: Okay. For both the OEM and the heat exchanger business last year you had a margin of 6% and 14% respectively. Do you feel that these margin levels are broadly sustainable?

Anita Kakkar: Yes, of course, the margins of the B2B are sustainable margins, because we are present in some niche categories wherein we enjoy high margins and that is the reason you always see that good margins coming in the B2B business as compared with the B2C business.

Chirag Setalvad: And last thing is of the balance amount which you get after working capital adjustment is there any game plan in terms of how much you will use to reduce leverage, how much would you possibly payout to shareholders?

Brij Raj Punj: We will work this one out as we go along.

Moderator: Thank you. We will take the next question from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi: The existing run rate EBITDA of your existing and remaining businesses any estimate on that? The approximate net cash that you would be left with after transaction expenses and taxes?

Anita Kakkar: We are still working on the numbers.

Ritesh Gandhi: And the EBITDA run rate on an LTM basis given you would also have some incremental business from the Lloyd business as well? Do you have any estimates on how much the existing run rate on EBITDA would be?

Anita Kakkar: Not much difference from the prevailing margins.

Ritesh Gandhi: But it would also then include incremental of the Lloyd business as well, the Lloyd outsourcing to you after the Havells?

Anita Kakkar: Yes, exactly and even we would be exploring further new organic business and all so I think the existing EBITDA rate will be more or less near the same itself around 10%.

Ritesh Gandhi: Okay. You had also mentioned that the deal was subject to due diligence, but typically at this stage the due diligence aspect should have already been over right or are there specific open points with are there?

Brij Raj Punj: Once the MOU is signed only then the due diligence will commence. It is already underway now.

Ritesh Gandhi: So the accounting, tax, legal diligence, and all is not yet completed?

Brij Raj Punj: It is all underway now.

Ritesh Gandhi: So there would be a reasonable amount of slippage for this transaction given the due diligence is not complete?

Brij Raj Punj: It will take six to eight weeks to finish it.

Ritesh Gandhi: Typically people announce transactions after the due diligence is complete right? At least that has been in almost all of the MNAs.

Brij Raj Punj: No, this is not in our case.

Ritesh Gandhi: Okay, alright, thanks.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal AMC. Please go ahead.

Atul Mehra: Good morning and thanks for the opportunity. Sir just one question again on the working capital, if we were to just do this consumer business on a standalone basis what will be the intensity of working capital in the business?

Nipun Singhal: Are you talking about the current level of debtors and inventory in consumer business?

Atul Mehra: I am not talking about current level because that you have not been sharing, but generally if we were to look at it as a business on an ongoing basis what will be the intensity of working capital, also in the light that you spoke about there will be substantial capital requirements if you were to grow this business yourself, so in that light as well how do we look at the working capital intensity in the business?

Nipun Singhal: Yes, see the thing is there are two parts of your questions. First is the working capital intensity, which is obviously required in a business which is growing at such a fast pace of 35%, 40% which means that the working capital will come in the form of debt.

Atul Mehra: No, what I mean is in terms of, of number of days is it 60 days or 100 days?

Nipun Singhal: We were operating earlier at 90 days net. This was about a year-and-a-half back and on repeated calls I said my endeavor is to bring this down. We have been working and as the brand is getting stronger we have been bringing that down consistently, but what will happen is it now after this transaction that business will move on, so what will be left behind post the closure of the transaction will be the B2B business which will have similar working capital as what has been there in the past.

Atul Mehra: Just to understand this better so this year we should conclude say at about 1800 Crores of sales if we were to take 100 days of working capital as you talk about…

Nipun Singhal: I did not say 100 days. I said way back we were 90 days, now it is substantially less. I said about a year-and-a-half back we were at net 90 days. Right now I do not have this figure with me because I was not prepared for a call which is going to go into these financials. It is more about the announcement of the deal

Atul Mehra: So substantially less would mean 50 or 60 days.

Nipun Singhal: Again, you are trying to take a number out of me, but I do not have the exact number

Atul Mehra: No, I am saying very ballpark.

Nipun Singhal: It will be between less than 90 days.

Atul Mehra: And secondly Sir you spoke about, obviously even Havells have clarified this that for the next two to three years the business will continue in terms of sourcing from the previous entity which is your entity. When we look at say an arms length kind of deal, like you have said earlier in the call that while other customers of yours there was arms length transaction, but in this case there was perhaps not an arms length transaction but maybe perhaps cost kind of structure, so if we were to do this as a arms length transaction, the current consumer business which has 6% margin so would any of that margin sustain or will it go away because if it were to be priced on arms length basis?

Nipun Singhal: The thing is this is something which even appeared in the ET today that we have declared our segment wise EBITDA at 87.5 Crores, whereas Havells has reported 75 Crores, so what is the difference? The difference is this amount. What we are doing is we cannot book sale twice, we cannot book profits twice in both the segments. Because it is the same company/legal entity, material from the factory goes to our branches and therefore we are booking that in the consumer business. Whereas Havells has taken a lower figure, since they have done the costing and the valuation of the business they have taken a lower figure that is already big thing.

Atul Mehra: But Sir earlier in the call you said that we do not price as per arms length as we price to other customers of ours?

Nipun Singhal: Exactly that is the reason why the EBITDA declared for nine months was 87.5 Crores for Lloyd consumer business and Havells has only considered 75 out of 87.5.

Atul Mehra: Just to clarify this you had 12 Crores of EBITDA for nine months on a revenue base of about 1200 to 1300 Crores, which means the pure manufacturing business is a 1% margin business?

Nipun Singhal: No. This is only to the extent of the supplies made from our factories to the consumer business. We only have 30-40% of our air-conditioning source from the Lloyd factory. This figure keeps on varying depending on the plant capacity

Atul Mehra: Got it.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Good morning Sir. You had mentioned that substantial growth capital was required for this business. I just want to understand this growth capital that you are speaking about is mainly the working capital for consumer durable business that you are referring to?

Nipun Singhal: No. It is not only limited to working capital. You see working capital is one part of it. The second part of it is also Capex because we will have to increase our backward integration in building factories, more capacities, we will have to venture into refrigerators possibly and that requires substantial capital, to complete the booking of consumer durables. So there are a number of things that needed to be done to take this to the next level. It is not only working capital, it is also substantial Capex.

Aditya Bhartia: Okay. Secondly Sir you are mentioning that around 50% of AC related work is done in-house that includes all heat exchangers, coils, assembly-related work everything that we are doing, all put together would be contributing around 30% of room AC revenues, is my understanding correct?

Nipun Singhal: Yes.

Aditya Bhartia: Okay. That 50% is the difference between what you are reporting and what Havells is reporting that is the margin that we had?

Nipun Singhal: Yes, absolutely correct.

Aditya Bhartia: Thanks for the clarification Sir.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Thank you Sir and congratulations for the deal. A lot of my questions are answered, but something which I wanted to understand is the deal consideration is 1550 Crores, the debt as of September 30th was around 700 Crores. Assuming a tax outgo and I know you are still working out, 150 to 200 Crores of tax outgo, assuming that we repay all the debt including the working capital debt for the B2B business and the long-term debt, we will still be left with maybe 600 to 700 Crores of cash is that correct

Nipun Singhal: That is a correct assumption, that is right.

Ashish Kumar: And I saw in the press release and your initial comments that you talked about growth in organic and inorganic opportunities. Is there a thought process in terms of returning a portion of the capital back to the shareholders? It obviously will take some time for the business to ramp up organically even if one were to look at it and the capital requirement.

Brij Raj Punj: Yes, we are working on this.

Ashish Kumar: By when do we think we can get some clarity on that?

Ashish Kumar: Thanks a lot Sir. We will wait for that and best of luck for a quick closure.

Moderator: Thank you. The next question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: What is our current capacity in terms of how much room ACs we can make?

Nipun Singhal: We can make about 600,000 ACs.

Abhineet Anand: And internally 30% of that is being transferred?

Nipun Singhal: Yes. It is not 30% exactly. It is between 30% and 40%, it changes form season to season, but yes roughly 30% to 40%.

Abhineet Anand: And within this consumer part what is the breakup in terms of RAC, LED and washing machine per se for nine months we can have some ballpark number?

Nipun Singhal: The nine months figure I had given you the breakup in terms of turnover of what was the breakup of RAC, LED TV and washing machine, but I will just give you AC and non AC first. It is about 65% AC and 35% non-AC.

Abhineet Anand: Okay. In terms of these three products what is our market share presently?

Nipun Singhal: In air-conditioners we have a market share of about 13% to 14% and in LED TV we are between 3% and 4% and in washing machine also we are about 3% market share.

Abhineet Anand: Okay. We have also talked about entering some other segments, etc., so what are the key things that we are looking once this money comes to us?

Nipun Singhal: We are looking at mainly into transport air-conditioning that is the metro and railways. We are looking into defense air conditioning of heavy tanks, etc., and other defense vehicles, etc., as well as air conditioning into the defense ships.

Abhineet Anand: So basically it is air-conditioning of industrial and transportation etc.?

Nipun Singhal: That is what we know and that we would like to, to some extent, stick to.

Abhineet Anand: And I think a part of that we already do now right?

Nipun Singhal: A very small portion of it.

Abhineet Anand: Okay. Just to clarify somebody has asked that in terms of working capital we were 90 days earlier and it would have come down now. This was for company as a whole or for the consumer product?

Nipun Singhal: All of these are in the very high margin areas and we should be able to deliver very good results in the coming years.

Abhineet Anand: I think my question was not communicated well. What I was asking is one of our participants had asked a question that this working capital days was somewhere around 90 days last year which has come down now. I am trying to understand whether this is for the company as a whole or for the consumer durable?

Anita Kakkar: It was for Consumer business. If you see the company as a whole, the working capital days were higher because of the blend. B2B is always a highly capital intensive business.

Abhineet Anand: So this was for the consumer durable?

Anita Kakkar: Yes

Abhineet Anand: Okay. I understand that obviously the tax rate aspects will be known, but any ballpark number or it is too early?

Anita Kakkar: It is too early to comment on that.

Abhineet Anand: Okay madam, thanks a lot.

Moderator: Thank you. The next question is from the line of Jaspreet Singh Arora from Systematix Shares. Please go ahead.

Jaspreet S Arora: Good morning. Thanks for the opportunity. Just a clarification Sir, from the entire CDB pack besides AC we are selling the television, washing machines, and the appliances sales, so here it was primarily import and little bit of assembly, so that is what is going or will we have some kind of arrangement here as well just the way we having in the manufacturing of ACs?

Nipun Singhal: At the moment, the agreement is for sourcing all the products which are manufactured in Lloyd factories. We do not at present make washing machines in our factories so there is no question of adding washing machines. Yes, we do assemble TVs.

Anita Kakkar: And the TV assembly is basically a part of the transaction, so it would be primarily only the AC coming.

Jaspreet S Arora: So in a sense we will continue to assemble televisions and continue to sell to Havells or?

Nipun Singhal: No. The TV assemblies are part of the transaction as Anita highlighted and that will then move to the new company, only the air-conditioning will remain going forward.

Jaspreet S Arora: Understood. In terms of the new product expansion that you mentioned just like you mentioned refrigerators, possibly we could get into televisions and washing machines as well in terms of manufacturing capacities going forward or it is again still in the pipeline?

Nipun Singhal: It is still to be considered. We are still working on the profitability and margins.

Jaspreet S Arora: Got it, but it is clear that we would primarily be focusing on the B2B businesses going forward within the CDB pack?

Nipun Singhal: That is right.

Jaspreet S Arora: Alright, thank you so much Sir and all the best.

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

Alok Goel: I am still a little confused about this 1550 Crores, how much exactly will Lloyd receive?

Anita Kakkar: We have already mentioned that this is the enterprise value on cash free and debt free basis.

Alok Goel: So, only debt will be reduced, and if you transfer inventory and receivables?

Anita Kakkar: Yes interest bearing debt

Alok Goel: Will you be transferring inventory and receivables also?

Anita Kakkar: Of course.

Alok Goel: Supposing the net working capital is a positive figure that would be added I suppose not reduced?

Anita Kakkar: Sorry I could not get you.

Alok Goel: You will transfer inventory, you will transfer receivables, you will transfer debt, so the net figure if it is a positive figure then you will add it to 1550 correct?

Anita Kakkar: No, see the thing is, the working capital debt which is there in the books of Lloyd Electric & Engineering Limited, which is ascertained at the time of the closing that would be reduced from the transaction value.

Alok Goel: Okay and what about inventories and receivables?

Anita Kakkar: That is definitely going it as a part because it is only the intangible which is going.

Alok Goel: So the total of inventory plus receivables less bank debt would be a positive figure or a negative figure?

Anita Kakkar: We are working on the numbers.

Anita Kakkar: We will get back to you on this.

Alok Goel: Yes, I mean it is completely ambiguous. Second thing is if you are shrinking your business so much you are giving away 60% of your turnover then is not it time to seriously consider shrinking you share capital by means of a buyback?

Nipun Singhal: Let us work out on the numbers and get back to you then. It is too early to comment on it.

Moderator: Thank you. The next question is from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: I wanted to just follow up on the question like you had mentioned that we could have done a lot of investment actually to ramp up this consumer durable business. Can you help us understand, give more details in terms of what could be the quantum of the investment you would have required to scale up this business, which we could not have done on our current balance sheet?

Nipun Singhal: Roughly the refrigerator plant would be about 500, 600 Crores for that advertising etc., would another be about 30, 40, 50 Crores, so this kind of numbers were coming up.

Charanjit Singh: Okay Sir. If you look at our profitability in the consumer durable business versus a lot of other competitors, there is a big differential. If on a continuing basis if we have to improve the profitability or the margin what were the steps you would have taken in terms of improving the margin profile of this business?

Nipun Singhal: We have always talked about this that the improving margins is a journey and the initial stages of any brand is more push late then pull late. Now you can see with the kind of AMP spend that we have done, we have already created awareness in the minds of consumers. There is pull that is being generated and gradually this will lead to higher margins. We have maintained this right through. As the pull increases in the brand definitely the consumers are willing to pay more for best quality service, best quality products. You cannot build something in a day. It has been a journey. Today we have reached a point where consumers are aware of the high quality products that we deliver and aware of the best in class service that we deliver, and now customers are going to be willing to pay more and that is how we will increase our margins and it is a logical next step and it will happen.

Charanjit Singh: And Sir if you can just help us understand your journey on the AC business, you have mentioned that we have a market share of 13% to 14% currently. If you could explain like how it was two to three years back and how it has gone up and what is the distribution ramp up and how we did that?

Nipun Singhal: Yes, see the thing is that when we started out we had all the backend, we had the manufacturing capabilities of heat exchanger, manufacturing ACs, and we have been doing it for several decades. So, we had all the capability with us the idea was to now take it to the market and show the customers and dealers that look we can deliver world class product and back it up with even better after sales service. I think what we went on is we went on this gap in the market of after sale service. A lot of companies are there who make good products. I am not saying that we are the only one. But what Lloyd did is it leads ahead on the after sales service side. I talked about in the past that KKG code, the Khushiyon Ki Guarantee code, where every customer gets the code and until he does not give us the code we do not close this call, so 100% customers are ensured that they are happy. Then the MyLloyd app, last year we came up with this app, where in turns I think you can send your service required. So many, many, many steps I can go on and spend another hour on this call telling you how many steps we have taken, which is why today Lloyd is a preferred brand by customers and dealers are promoting it because they feel that this brand can deliver very good product and even better after sales service. You as a customer also want after sales service and that is a big problem today in many brands.

Charanjit Singh: If you can just help us understand how the market share in the AC business has moved?

Nipun Singhal: Yes, we have grown very rapidly in the last three to four years. You can understand from where we started. Three years back it was below 8%, so we have been adding market share and I think with the kind of efforts that we are putting in you have seen the new announcement of Mr. Amitabh Bachchan as a brand ambassador. I think this is going to make a very big impact on the brand stature. The confidence it will give to consumers coupled with our quality, our after sales service, I see further growth in the market share.

Charanjit Singh: Fine Sir, thanks a lot for taking my questions. All the best.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: Congratulations gentlemen for this deal. In the consumer durable business you highlighted that 30-40% % of the air-conditioners which were sold were manufactured in house and rest were traded. I just wanted to know why this number was so low. Is it that there was no capacity in your factory to manufacture in house?

Nipun Singhal: There are several reasons. One is we have capacity constraints because we would like to definitely give preference to our customers outside. Secondly, it is also that certain types of air-conditioners are not manufactured by our company. I will tell you which types, like portable ACs, like cassette ACs, floor standing ACs, these types of ACs are not manufactured. There are also some small quantities like let us say 9000 BTU ACs, it is a very small segment, so it does not make sense for us to manufacture for the small quantity, so both these reasons combined.

Bhargav Buddhadev: And Sir would it be fair to say that going forward where the Havells also continues to source, they would also continue to maintain the same mix, which you have in the consumer business?

Brij Raj Punj: I think going forwarded it will look like that only, but we will have to discuss with them.

Bhargav Buddhadev: Is it possible to know the breakup of this 1550 Crores?

Anita Kakkar: Being a slump sale, there is no separately assigned value asset wise

Bhargav Buddhadev: So madam hypothetically if you assume that by 31st March your inventory and receivable levels increase from the current levels and assuming that this is not financed by working capital debt, in this scenario does this consideration increased from 1550 Crores?

Anita Kakkar: Yes it will increase.

Bhargav Buddhadev: And is it possible to know the working capital debt as on the date of the transaction for the consumer business?

Anita Kakkar: No. It would not be possible because as we mentioned it would be only the trading business which would be going out, so the numbers need to be ascertained and we are in the process of doing that.

Bhargav Buddhadev: Okay madam. Thank you very much.

Moderator: Thank you. The next question is from the line of Ankur Sharma from Motilal Oswal Securities. Please go ahead.

Ankur Sharma: Sir just one question, as we transfer this division out to Havells how many employees would get moved out from the company?

Anita Kakkar: It would be the entire consumer durable team that would be moving out.

Ankur Sharma: Understood, thank you.

Moderator: Thank you. The next question is from the line of Yash Agarwal from Crest Wealth. Please go ahead.

Yash Agarwal: Just to understand you residual business profitability, in nine months we reported 186 Crores EBITDA and 75 Crores is Havells. Our residual EBITDA for nine months 110 Crores right, is that a right way to look at it?

Anita Kakkar: Yes.

Yash Agarwal: Okay. Secondly in FY2016 the intersegment sales were 440 odd Crores so that will be the sales to Havells right?

Anita Kakkar: Yes , it would be in that range..

Yash Agarwal: And lastly what was the whole company debt level as on December?

Anita Kakkar: Its' not handy with me. We will get back to you.

Yash Agarwal: And one more question, the consideration mentioned by Havells is 1600 Crores and 1550 is to Lloyd, so where is the difference of 50 Crores going to?

Anita Kakkar: 50 crores consideration is being paid to Fedders Lloyd, associate company for the sale of the "Lloyd " trade mark which is used for all related business of Fedders Lloyd as well and is being transferred in its entirety to Havells as part of the deal.

Yash Agarwal: Alright, thank you so much.

Moderator: Thank you. The next question is from the line of Balmukund Dagar, an Individual Investor. Please go ahead. As there is no response from the current participant, we will move onto the next participant that is from the line of Sahil Taneja, an Individual Investor. Please go ahead. The line for the current participant seems to have dropped out. We will move onto the next participant that is from the line of Yash Mata from Vibrant Securities. Please go ahead.

Yash Mata: Good afternoon Sir. The first question is that as you said the incremental EBITDA which we will get from the business from Havells is around 12 Crores on nine-month basis is it correct?

Nipun Singhal: Sorry can you repeat that question.

Yash Mata: The incremental EBITDA which you will get from the business of OEM to Havells is a nine-month basis around 12 Crores, is it correct?

Anita Kakkar: It is not 12 Crores because it also includes some corporate allocation as well.

Yash Mata: So it will be less than that?

Anita Kakkar: Yes, it would be less than that. We do not have the exact number with us because that figure includes the markup of the OEM as well as some corporate allocation.

Yash Mata: But the thing is that market is saying that the stock is down by 18%, so clearly I think it has not turned out well for the shareholders so any thoughts that?

Brij Raj Punj: we are going to evaluate investing in the high-margin products and that will increase value of the stakeholders.

Moderator: Thank you. The next question is from the line of Siddhart Mundra from Fairwinds. Please go ahead.

Siddhart Mundra: Good morning Sir. Congratulations on the deal. I would like to know out of 6 lakhs ACs what is the current capacity utilization in the B2B business?

Anita Kakkar: In the B2B business, it is like 90% is utilized.

Siddhart Mundra: So going forward we have to engage more in the OEM business?

Anita Kakkar: Yes it calls for some sort of an investment.

Siddhart Mundra: How much you would like to increase the capacity from 6 lakhs to say 10 lakhs to 12 lakhs, is there any cost on that?

Anita Kakkar: No, we have not worked on any numbers. We will definitely be working out.

Siddhart Mundra: Okay. What about other products in consumer durable which you would like to invest, refrigerator or washing machine or both?

Anita Kakkar: We have not given any thought process as of now onto this.

Siddhart Mundra: Okay. What is the size of the residual business, which we have now left in B2B? Last year we reported 1400 Crores top line. What would be the estimate size of this business this year that will be left with Lloyd?

Anita Kakkar: It would be approximately that size only.

Siddhart Mundra: Okay. The last question is this gentlemen asked that you will be left this 500 or 600 Crores cash and there would be some way of giving back to the shareholders. Apart from that, how much do you want to invest in other businesses other than OEM so there would be some year mark for 300 Crores for OEMs, balance for other defense and railways AC, is there any allocation?

Nipun Singhal: It is too early.

Siddhart Mundra: Okay Sir, thank you.

Nipun Singhal: Could we have the last question please?

Moderator: Sir that was the last question. Would you like to add any closing comments?

Brij Raj Punj: I think we have tried to clarify as much as we could and because this has happened very recently there are one or two points, which one or two investors have pointed out and we will definitely plan to get back on that. Thank you.

Moderator: Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us. You may now disconnect your lines.