"Lloyd Electric and Engineering Limited Q2 FY17 Results Conference Call"

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MODERATOR: **MR.SALIL UTAGI -EDELWEISS BROKING LIMITED**

Moderator: Good morning, Ladies and Gentlemen. Welcome to the Lloyd Electric and Engineering Limited Q2 FY17Results Conference Call, hosted by Edelweiss Broking Limited. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Salil Utagifrom Edelweiss Broking Limited. Thank you and over to you, sir.

Salil Utagi: Thanks. Good morning, everyone to Q2 FY17 Conference Call of Lloyd Electric & Engineering. The Senior Management is represented by Mr. Nipun Singhal – Director and CEO of Consumer Durables, Mr. Filip Eisenreich – Managing Director of Overseas Subsidiaries and Ms. Anita K Sharma – Company Secretary and VP (Finance) of the Company.

Now, I hand over the call to Ms. Anita K Sharma for her opening remarks. Over to you, Anita.

Anita K Sharma: Thanks,Salil. Good morning to all of you. On behalf of the Management of Lloyd Electric and Engineering Limited, I welcome you all to this Q2 FY17 Earnings Call. I will take you through the financial highlights of the quarter and half-year ended Sep'16 under review and thereafter, Mr. Nipun Singhal and Mr. Filip would provide a brief outlook of the business segments and then we will open up for the question-and-answer session. We will try to answer all the queries to the extent possible. In case any question remains unanswered due to time constraints, we will get back to you soon.

Despite the global headwinds, the Company delivered good performance during the quarter ended September 2016, with standalone revenue registering an impressive growth of 30% to Rs.510 crores over the corresponding quarter of the previous year. The growth was led by higher sales of the consumer durable segment which reported remarkable increase in the revenue growth of 65% over the corresponding quarter of the previous year. This is as a result of aggressive brand awareness campaign supplemented by the best in class after sales services which has resulted Lloyd enjoying market share of around 14% and ranking amongst top three to four players in the Indian room AC market. The growth in consumer segment was also coupled with increased sales in other product categories, primarily the TV segment and the washing machine segment.

Customer delight has always been the cornerstone of Lloyd and we endeavor to remain committed by offering best in class after sales service which is coined in a brand message "*Khushiyon ki Guarantee*". We are the first consumer durable company for having launched a service app during the year for wide array of services and facilities thereby enabling the customers to have an easy access to Lloyd's services at their own convenience. We have expanded additional features in the app apart from registering the service complaints in less than 10 seconds, the customers can also use this app for other services like trade ins, e-payments, product registration and so on.

A creative brand campaign during the festive season was on two fronts. The tactical communication was "*Khushiyo ka Lamp*" and the thematical campaign we had TVC featuring India's favorite player Virat Kolhi together with Chris Gayle and Shane Watson and celebrity Shruti Hasan. We are delighted to share with you that a unisex TV commercial for washing machine has won silver award at the London International award. We were the only Indian company nominated for the said award. Also, I would like to add that we have also tied up with Chennaiyin football team owned by MS Dhoni, Ms. Rane and Abhishek Bacchan.

Now, I would like to take you through the key financial highlight for the quarter under review on the standalone basis. The total income from the operations for Q2 FY17 stood at Rs. 512 crores as compared to Rs. 393 crores in the corresponding quarter last year, registering a growth of 30%. The operating profit excluding the non-operating income for the quarter was higher by 14% to Rs. 48 crores as compared to Rs. 42 crores in the corresponding quarter of the last year.

During the quarter other income was Rs. 0.32 crores as against Rs. 0.12 crores during the corresponding quarter of the previous year, mainly on account of interest and dividend income on the investment. The profit before tax grew by 33% to Rs. 16.39 crores as compared to Rs. 12.34 crores during the corresponding quarter of the previous year. The tax expense for the quarter was Rs. 4.21 crores as compared to Rs. 2.6 crores during the corresponding quarter of the previous year. The total comprehensive income after tax for the quarter stood at Rs. 12.34 crores as against Rs. 10.06 crores, registering a growth of 22%. The basic earnings per share for the quarter stood at Rs. 3.06 as against Rs. 2.85 in Q2 FY16. During the quarter, the equity capital has increased from Rs. 36.21 crores to Rs. 40.33 crores pursuant to the conversion of equity warrant by the warrant holders.

The financial highlights for the six months ended September 2016. The total income from the operations for the six months ended September 2016 stood at Rs. 1406 crores as compared to Rs. 1104 crores in the corresponding period of the previous year, registering a growth of 27%. The operating profit excluding the non-operating income for the six months ended September 2016 stood at Rs. 142 crores as compared to Rs. 115 crores in the corresponding period of the previous year, registering a growth of 23%. For the period ending September 2016, other income was Rs. 0.70 crores as against Rs. 0.34 crores during the corresponding quarter of the previous year, mainly on account of interest and dividend income on investment. The profit before tax grew by 34% to Rs. 74 crores as compared to Rs. 55 crores during the corresponding period last year. The tax expense for the six months ended September 2016 was Rs. 18 crores as compared to Rs. 12 crores during the corresponding period last year. The total comprehensive income after tax stood at Rs. 56 crores as against Rs. 44 crores in the corresponding period last year, registering a growth of 27%. The basic earnings per share for the quarter stood at Rs. 14.02 as against Rs. 12.54 during the corresponding period last year.

The segment wise highlights.

The consumer durable segment. The revenue from this segment stood at Rs. 308 crores as against Rs. 186 crores, registering a robust growth of 65% over the corresponding quarter of the previous year. This was primarily as a result of good sales in the TV product category, extensive marketing initiative undertaken by the Company, the expansion in the dealer network and customer delight by offering quality product with best after sales service. All these factors resulted in Lloyd brand enjoying a 14% market share in the Indian room ACs and ranking amongst the top three to four players. The segment results stood at Rs. 22 crores as against Rs. 15 crores during the previous year, registering a growth of 46%.

The OEM and the packaged air conditioning segment. The revenue for this segment and the results from this segment was higher at Rs. 103 crores and Rs. 104 crores as company Rs. 81 crores and Rs. 2 crores respectively during the last year, and showing an impressive growth of 27% which has resulted in the segment delivering good margins.

The heat exchangers and the component segment. The segment revenue and the results stood at Rs. 136 crores and Rs. 16 crores as compared to Rs. 179 crores and Rs. 20 crores respectively during the corresponding quarter of the previous year. This segment caters to the manufacturing of the heat exchangers and the evaporator coils for the HVAC and refrigeration industry and copper and brass heat exchangers for the railways, heavy automobiles and other industrial applications and the component business of heat metal. The segment's revenue and results were lower primarily due to the lower capacity utilization of the component business due to the lower demand intake from the HVAC players.

International business:. During the quarter the total income from the operations from the overseas subsidiaries put together was EURO 13 million as against EURO 11 million, registering a growth of 14%. The wholly owned subsidiaries reported EBITDA of EURO 0.63 million as against negative EBITDA of EURO 0.08 million during the corresponding quarter of the previous year. At the PAT level, the subsidiaries put together had reported a breakeven. For the half year ended September 2016, the wholly owned subsidiaries reported revenue of EURO 27 million as against EURO 24 million and EBITDA of EURO 1.38 million as against EURO 0.18 million during the corresponding quarter of the previous year. The profit after tax from all the subsidiaries put together for the period ended September 2016 stood at EURO 0.2 million as against the negative PAT of EURO 1 million during the corresponding quarter of the previous year. Despite the global headwinds which have resulted in decline in revenue from several customers in France, UK and Spain, good development came in from the market of central and northern Europe. Strategic segment of close control AC for data centers has experienced good growth by customers like Emerson Network Power, opposite development have been observed by German customers too. This has been achieved by improvement in product cot as well as by tight control on the overhead expenses. Revitalization project for Janka has continued also in the coming months, further design driven savings are also planned to be implemented in the coming quarters. The main focus will however shift on to the sales side with an aim to identify new sales opportunity and to maintain more stable load for the Company. For all the new projects, engineering and manufacturing will be closely coordinated to maximize synergies between the group companies.

Now, I would request Mr. Nipun Singhal to provide a brief outlook on the business of the consumer durable. Over to you, sir.

Nipun Singhal: Good morning, everybody. And thanks Anita for this overview. We have had a fantastic quarter ended 30th September, with 65% growth. And the good news for our company is that the growth this time is not very large from the AC segment, but from the TV and washing machine segment. We have been trying to increase our share in TV and washing machine and in this Diwali season we could see a very good traction even in our TV sales and our washing machine sales. I think this trend will continue in the coming quarters as well where we will find that the dependence on air conditioner will start coming down as the other two product categories become stronger.

Just to give you an idea of the breakup. Out of Rs. 308 crores which is the sales for the quarter, 36% was air conditioner, 51% was LED TV and 13% was washing machine. So there is almost 64% of the business now coming from non-air conditioning products. To dive in a little deeper and talk about the initiatives we took in the festival period, I think the outline was given by Anita that we had this tactical scheme called "*Khushiyo Ka Lamp*" which essentially was a consumer scheme. It was a lamp which was a cut out which you could scratch and you could win assured gifts and cash back. And this was widely appreciated by everybody, as in Diwali people expect something extra with consumer durables.

In the thematic side, we have always had an old relation with cricket which is the religion in India and Virat Kolhi, our captain, is doing very well and we have signed Virat Kolhi for two years through RCB. And so that campaign also really did very well campaign was there with "*Everything Looks Better on a Lloyd LED TV*". I think apart from cricket, in the world of sport football has started to gain very good recognition and following, especially in the urban markets. So, we therefore in September of 2016 did a sponsorship arrangement with the Chennaiyin Football Club, and as you can see that the games are on way right now. And the Indian Soccer League has also become a very prominent sporting event in the calendar. So this is a very good way of also connecting to football fans apart from the masses of people who follow cricket.

I would just like to go one step deeper on the service front. With this new introduction of the My Lloyd app, we are India's first and only company who have taken initiative to produce a app for our consumers where in less than 10 seconds the consumer can register his compliant. Today you have a toll free number from all companies, it takes you a long time to hold on the line and then finally give your address and so and so forth, but with this app the consumer has Lloyd on its finger tips, on a smartphone and on his finger tips and in less than 10 seconds he can register a complaint.

We have added a few more features on the app, one significant feature is product registration and I think all of you as a consumer would realize that if your product is in warranty, the technician invariably asks you for the bill and most people do not have the bill to claim warranty, it is one year, two year, three year since you brought the product. But now as soon as you buy the product you can upload your invoice through the app, and thereafter you will never be asked for the bill to claim warranty, a real boon for customers.

Another very big thing is Trade-in, most people want to upgrade their products but they do not know what to do with the old product, so we have launched this thing through the app again where you can request for trade in and our persons will come, evaluate your old products and provide you a trade-in where they will sell the old product and provide you with a new product of your choice from Lloyd.

There is one more thing, which is e-payment gateway. So today people are not sure of whether the charges are right, whether the money is going to the company or is being pocketed by the intermediaries. So with the e-payment gateway you can from the app make payment of the service charges which you know are genuine and are going to the company itself.

So these have been our efforts amongst a lot of efforts we have done in the last few years, which is why I feel that Lloyd brand has become very strong and is a preferred brand today for consumers. Thank you.

Anita K Sharma: Thank you, sir. I would request Filip to provide a brief outlook on the overseas business. Over to you, Filip.

Filip Eisenreich: Thank you, Anita. Good morning, everybody. I would just add very brief comments to the results for the overseas operations. We have seen improved profitability which was the result of regular implementation of cost cutting initiatives from the previous months, mostly in the area of product design procurement and labor productivity. We are more or less on track with the actions, most of the quick wins have been fully implemented by now. There is still a list of further actions in front of us that we are going to execute during the coming months.

Where we are still behind is the sales side, however. We continue to suffer from difficult economic situation in Russia and several new countries. But we continue the active search for new customers and markets which is obviously the main focus for us in the coming months. Recently we have been gaining more market share in Germany, it is still rather low compared to the other countries, but finally starts to bring regular business to us. Therefore more actions are being planned in Germany as well as in other markets where we believe is a room for improvement and increase of our market position.

As a strategic task, we continue to further integrate a newly acquired company Noske-Kaeser Rail & Vehicle, which was a couple of months ago. So the goal is to integrate the company more into the organization with the aim to maximize possible synergies among the companies. By now we have already initiated approval process by major customer of Noske-Kaesers Rail & Vehicle in order to be able to transfer manufacturing of the units from current external sub-contractor to own internal production. And the complete integration of currency outsourced production will be our main goal for the coming months and for the next year.

That is the brief summary from my side. Thank you for your attention.

Anita K Sharma: Thank you, Filip. We are open for the question-and-answer session.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Harsh Vijay Shah from Crescita Investment. Please go ahead.

Harsh Vijay Shah: My question was, I saw your interview recently where you in depth told us the effect of demonetization on your company. And actually I was very happy to know that we are achieving the same sort of growth that we were doing last year, and there is also a scope for a little bit improvement. So on that context can you just throw a little bit light on your recent tie-up with Bajaj Allianz from the timeline perspective or how is it off taking so far?

Nipun Singhal: Actually, I think what we basically understood from the demonetization is that people do not have cash in their pockets, I am not talking cash as in black money, I am talking about even the legal money which is lying in banks, they are not able to withdraw it. But yet today consumer durables is something which is a necessity. If your washing machines packs up you need to buy another washing machine otherwise the cloths cannot be washed. So what we realized is that the only way to give an opportunity to the customer to buy the consumer durable of his choice as per his need would be to go for a zero down payment scheme. So essentially our "Cashless Happiness" which we had advertised is a zero down payment scheme, which means you pay Rs. 1 down payment. And to sweeten the deal we have made one EMI holiday, which means that if you wanta product now with zero down payment, you do not pay the first EMI, you pay the second EMI and there onwards. So to give you an example, if you buy in

November 2016, your EMI will start from 1st February 2017, the January EMI will be skipped. So in this way people who do not have money they can buy a product at Rs. 1 and EMI will start from February by which time all these things will be back to normal.

Harsh Vijay Shah: So after this tie up have you been seeing the off take in the sales financing? I guess you said around 60% to 65% of the sale is happening through finance, is that right?

Nipun Singhal: Absolutely.

Harsh Vijay Shah: So there is a huge scope, basically this can also be a new gate for you when the things get normalized about demonetization, this financing can also help you ramp-up your sales even further?

Nipun Singhal: Yes, absolutely.

Harsh Vijay Shah: So rather than just taking this as a support of demonetization this can be a new growth driver?

Nipun Singhal: Absolutely.

Harsh Vijay Shah: And can you just give me, again, the breakup of Rs. 308 crores that you had given, I missed that.

Nipun Singhal: So, from Rs. 308 crores 51% was LED TV, 36% was air conditioners, 13% was washing machines and 1% is other products.

Harsh Vijay Shah: And can you just give me the breakup of our other expenses for the first half? I do not want all the expenses, what are the top three, four expenses and what is the contribution…

Nipun Singhal: Advertising is the leading cost there and as you can also see the advertising spends are the maximum for a brand like Lloyd, so that has been the biggest cost in other expenses.

Harsh Vijay Shah: And I had just one last question in this consumer durable side, was it only our aggressive branding which we actually happened to do it very nicely in this year, so was that the only contribution to our first half sales ramp up of almost 50% or did we do anything else like positioning or entering some new markets because we are already there very handsomely in the Tier-III and Tier-IV cities?

Nipun Singhal: No, I think it is a combination of all what you said. So there was a strategic move to going to urban markets. We have done very well in all the metro cities this year which was traditionally weaker for Lloyd; Delhi, Chennai, Bombay all have done very well for us in this year. Those were low hanging fruits because our market share in Tier-III and Tier-IV was higher and in metros was lower. So yes, this was a strategic move from our side to engage and increase our footprint in urban markets and metro markets.

Second thing and the most important thing I think is the focus on customer delight. I mean, people do not see the importance of customer delight, business for Lloyd I can tell you that the game changer for this brand has been customer delight. And people have started to recognize because it is not a one-off thing that we are doing, if you see in the last three years we first came with "*Khushiyo ki Guarantee*", then we created this thing called KKG code and his year the app. So the trend is now visible to the consumer that this company is totally focused on customer delight and the actual experience of the customer is leading to higher recommended sales. Whenever recommended sales go up it is a very good sign that customers are now actually recommending the brand, it is not driven only by mass media communication. And I think going ahead also you will see something in our next year's campaign also which is centered around customer delight in 2017.

Harsh Vijay Shah: And on this Lloyd app, I have also used that app myself and it actually very easy and very user friendly to use this app luckily. Actually I could register a complaint, actually not in 10 seconds but yes pretty much within 30 seconds I could lodge a complaint if I want to. How much as a total have we invested in this application and development?

Nipun Singhal: I think the actual cost of making an app is not very large, I cannot say that I spent Rs. 10 crores on making an app, people will laugh at me. But the overall backend including the training, including the downloading to dealers, that entire cost, the marketing campaign behind that has almost been about Rs. 7 crores to Rs. 8 crores. So the integration with our PRN software, all these things have cost money, just the app, the front end is not so expensive, that is about Rs. 20 lakhs - Rs. 25 lakhs only. But the back end, the path of connecting it with CRN, taking it to the dealers, training our own people, and then advertising it, because unless we do not communicate it who would know about it. So we spent money on digital advertising to popularize the app.

Harsh Vijay Shah: And the entire backend team for that?

Nipun Singhal: Yes, absolutely.

Moderator: Thank you. We have the next question from the line of Ashish Kumar from Infinity Alternators. Please go ahead.

Ashish Kumar: I had two questions, one was in terms of the margins. Now that we have seen such huge growth in the consumer durables business, when do we expect to kind of translate the high quality, satisfied customer base in terms of higher margins for that business or do you think the margins would remain at the current levels? And I am more coming from a fact that from an

ROCE perspective we are still sub-20% on an ROCE basis, so when do we expect the ROC business or the consumer business to move higher? That was one.

And the second one was, if you are guys are in a position to talk a little bit about what is happening with the EY exercise on the shareholder value creation, what is the timeline around that?

Nipun Singhal: So I will start with the first point which was margins. I would like to give you two numbers. First is the blend of consumer durables segment in the overall pie. Now, as you can see in this quarter and in the six months as well the percentage of consumer durable sale versus the whole company has increased and we all have seen that the margins in consumer durable are slightly lower than for the other businesses. So as the blend of the consumer durable increases obviously for the company as a whole the margins would slightly decline. So this is one area. The second area is, within consumer durable, as I just told somebody who had asked the question of the breakup of AC, TV and washing machine, our highest margin is in air conditioners where we are very strong, both in market share terms also and in terms of brand perception. But in the quarter two and quarter three where TV and washing machine is about 65% of the total sales, the blended margins come down. So these are the two factors which is why margins are subdued versus the previous quarter. Going ahead, I think before we start actually raising prices in TV and washing machine we will have to come to a respectable market share in TV and washing machine. Even today after the great growth figures there is a lot of scope for growth in TV and washing machine. I would think that our TV market share is roughly about 3.5%, in AC it is 13% - 14%. So I think if we touch double-digit or as and when we touch double-digit, I am not saying we should be number one, number two or number three, the moment we come to double-digit market share in TV and washing machine over the next one, two or three years, then we can start taking prices and there will be a rapid margin expansion. So that is the first part about margins.

Ashish Kumar: And sir do you expect margin increase let's say in ACs, do we expect our prices to increase in the coming season? I understand what you are saying about the product mix but let's say in the coming product season do you expect our air conditioner margins to be substantially higher compared to what it was last time around?

Nipun Singhal: So it is a very open ended question because right now commodity prices are going up, you can see that all the raw material like copper and aluminum is going up. And there is this factor that others, the competitors are talking about the effect of demonetization. Now while we have not really faced de-growth in November and we see the trend continuing that Lloyd will continue to grow, what will be the exact situation in the market, how much impact will commodity make by January to June, it is something which we cannot talk about today, I cannot predict what would be the levels of US dollar and we can see there has been a depreciation of rupee in the last 15 days. So there are many moving parts out here, one is the dollar rupee, one is the commodity price increase. So at the moment my guidance would be that let us not expect an increase in margins, if things become good and we find things stabilize and the market is growing, we could see the market expansion, the brand is, per say, ready to grow in market share as well as in margins for AC category.

And on the EY front, we have said in announcement that EY is the process of giving us recommendations of how we could unlock shareholder value, these discussions are going on, deliberations are going on. There is no definitive decision taken by the management and I think it will take another few months before we can come with some concrete reply to these questions.

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

Ankur Sharma: Firstly on this whole demonetization impact on the sales for the consumer durables segment, could you just remind us how are you seeing things panning out for Lloyd, more so given our stronger presence in the Tier-III, Tier-IV cities versus metros?

Nipun Singhal: See, I mentioned earlier that demonetization basically is impacting consumers. Now if at AC if you look at right now, November, December, January is where consumers do not buy a lot of ACs, it is more institutional sales. Now institutional sales are not at all impacted by demonetization, they were never paying in cash. So the fortunate thing for AC manufacturing is that in November, December, January there will be absolutely negligible or none impact of demonetization because this is the time of institutional sales, whatever sales is happening is all institutional. Another factor is that with this finance scheme that we have given, I talked about the cashless happiness, today if somebody really wants to buy an air conditioner he can pay Rs. 1 and buy it.

Ankur Sharma: So basically what would be there for critical is that things kind of normalize going into Q4, because that is when you really start pushing out inventories to dealers, etc, for the upcoming summer season and also sales starts happening from March onwards. So you would therefore believe that if things kind of start getting back to normal and the liquidity crunch kind of goes away, even Q4 should not or rather Q4 is what we should be really watching out, Q3 should not really have too much of a problem, is that how we should read it?

Nipun Singhal: No, I am very confident that by Q4 at least we will be absolutely back to normal. I do not see any negativity, the liquidity would ease. But we are not talking about luxury, I mean today consumer durables are anything between Rs. 10,000 - Rs. 50,000. Even in Tier-III, Tier-IV this is not a huge amount of money. And as liquidity becomes normal, people can afford to even pay in cash Rs. 30,000 it is not some very big number. What could be impacted is the high ticket items which are in lakhs and crores, that could have an impact. So my view is, I mean, there are some industry experts who were saying there will be an impact, my view is and I am encouraged by November that there should not be any impact in Q4 at all of demonetization, we will fight liquidity easing and things would be back to normal.

Ankur Sharma: And sir my second question was on the room air conditioner side where you obviously have taken market share, now you are there at about 13% - 14%. So how do you see this kind of shaping up next two, three years, do you have any targets in mind, do you want to be like amongst the top two players? And what kind of percentage share, if any, that you are targeting?

Nipun Singhal: See, we have never been driven by being in the top two players in quantity or in value. We have always believed in one mantra that we would like to be the number one player in customer delight that has been our mandate from day one. We will be the number one player for customer delight and that is our target. If as a bi-product we become number one or number two or number three or number four, that is all incidental. As long as we are number one in customer delight that is what is important to us.

Ankur Sharma: And just last thing was, and I think one of the earlier questions was that this year has been very good for us, we have obviously done very good work on the advertising side, on the distribution side. But one of the feedbacks that we also hear is that you may have also stepped up the margins that you give to your dealers during this year and that could have also been one of the contributing factors. So what I was trying to understand is how are you really placed versus peers in terms of dealer margins that you give to the end dealers?

Nipun Singhal: No, that is visible. If you look at the EBITDA margins of our leading competitors, it is higher and Lloyd is lower. And the reason is exactly what you said that it is not that our costs are higher that is why our EBITDA is lower, it is purely because we do have a little more margin that we give to our dealers. And in TV and washing machine it is the need of the hour, because why would somebody promote my television, washing machine if he does not make a little more money than other established players. If you are businessmen, you would also demand a little more margin to promote Lloyd, especially TV and washing machines. And today you can see the contribution of TV and washing machine is increasing. I mean, if you look at this quarter for example, 65% comes from non-AC which was never heard off two, three years back in Lloyds. So you have to look at us not in comparison to say Voltas which purely is an air conditioning company, you have to look at us as a consumer durable company. We are not only air conditioners, we are doing TV, washing machines as well and a significant chunk of our turnover comes from TV, washing machine as well now, especially in the off-season.

Ankur Sharma: And if you could just give us a break up of your Q2 2016 sales as well into ACs, TVs and washing machines please, so we can get a better YoY comparison in sales growth?

Nipun Singhal: Q2 2015 you mean?

Ankur Sharma: No, for last year, Q2 2016, the previous year.

Nipun Singhal: So the previous year ACs were 44% which has declined to 36% and TVs were 43% which has increased to 51%, washing machine has increased from 11% to 13%.

Moderator: Thank you. We have the next question from the line of Vikram Kotak from Crest Capital and Investment. Please go ahead.

Vikram Kotak: Nipun, I have a question for you. One, you reached to a 14% market share in AC and you did mention in your comment that the metro has started doing well which was not the case earlier. Can you elaborate a little bit on that? That is my question number one, and I will ask the second question later.

Nipun Singhal: So, in the urban markets it is much more brand conscious, it is much less price conscious and it is also more expensive to communicate in urban markets. The cost of advertising in urban markets is much more. So as a strategy we first went to the semi-urban and Tier-III and Tier-IV markets where all these tractors were the opposite, people are more price conscious, they are less brand conscious and the cost of advertising is less. But what we realize is that at the scale we have reached now we have the money to communicate to the other customer, and most importantly I think things like the app, the app is not being used in Tier-III, Tier-IV, the app is being used in the metro markets. Now people are very busy in metro markets, they want convenience, they all have smartphones and this kind of thing, this kind of brand speak, this kind of initiative of the brand have really made headwind in the urban markets. By dropping prices I would not have gained market share in Delhi or Bombay, that would not be the strategy because people do not care, they do not mind paying Rs. 3000, Rs. 5000 more. What is the turning point in urban markets is your strength has increased, people are more aware of your brand, people are appreciating the kind of initiatives we have done in terms of new technology.

Vikram Kotak: But Nipun, just to add to the question, how do you quantify? In the sense, last year assume that urban was x, so can you give some data point by which I can say that okay your urban market share was x and now your urban market share has gone to, or some numbers?

Nipun Singhal: Yes, I will give you the numbers exactly. See, if you take the industry, around 43% of the air conditioning business is done in the top eight cities, that is the industry. Lloyd, I have the numbers for 2014 was at 27%, so we are significantly weaker in urban markets. Now, over 2014 27% we went to 32% in last year which was again less than 43% which is the industry average. And I think this year we should be around 40%.

Vikram Kotak: So you are in line with now urban market?

Nipun Singhal: No, not in line, we are weak in Calcutta and Bangalore, Bombay and Delhi we are in line. And if we can bring up sales in Calcutta and in Chennai, I think I would be at 43%.

Vikram Kotak: And second question I have, I think either for Anita or either for you, I think it is a delight for investor when you start reducing your debt and your working capital cycle and I am really very impressed with the numbers which you came in this quarter, really your debt came down from Rs. 900 crores almost in March 2016 to now almost Rs. 720 crores and working capital cycle is down by some 17 - 18 days. That is a really surprising and very good number. Can you highlight more on that Anita or Nipun? And can you talk about how we are looking to reduce cycle further down since your brand is getting stronger, your urban penetration is again getting stronger, what kind of a level you expect or what do you see going forward in next six to 12 months or maybe a two years' time where do you see your working capital cycle and debt levels are going to be? Thank you so much.

Nipun Singhal: Vikram, this question is something which we were asked even in the last several calls asking what would be the trend going ahead. And really what we said is what is being seen today on paper. Now the reasons are two folds, one of course as you mentioned rightly that there is a more consumer pull, the dealers are working with us on tighter terms, we are keeping less inventory available for them, so this is happening on one side. The other side is a blend, the blend of non-seasonal products like TV and washing machine starting to contribute. So one is the obvious which is that as the brand becomes stronger the cycle will get shorter, this is what we had said a few years back.

Vikram Kotak: No, I have seen the calls, I want to put what of numbers there, I think most of the consumer durable companies are cash rich or they are at a very low level of debt. Where do we see ourselves or when do we see ourselves say 2018 - 2019 that yes we want to achieve this target of zero debt or something like that.

Anita Kakar Sharma: See, as of now still only 60% of the business accounts to the B2C business, so if you would have seen there has been a reduction in the working capital number of days by roughly 30 days, so that is coming basically from the change of the sales mix with more contribution coming from consumer durable segment. And as and when it is going to increase you will see that there would be a reduction in the working capital number of days, because now 60% is consumer durable segment and 40% still accounts to B2B business, which is high capital intensive.

Vikram Kotak: And a very small last question, Anita, for you, you mentioned that Rs. 40 crores is the ad spend in this year and I know you are going more urban and more metro so your spend is going to go up, but any ballpark number as a percentage of sales as organization that we do not do cross x percentage of sales as a brand promotion, any numbers on that?

Anita Kakar Sharma: Yes, that would be 4% of the top-line of the consumer business.

Moderator: Thank you. We have the next question from the line of Sagar Kharkhane from Nirmal Bang. Please go ahead.

Sagar Kharkhane: Sir, I just wanted to understand in terms of our apps, so how many apps have been downloaded? And also what has been the typical customer complaint in relation to the ACs as well as non-AC appliances?

Nipun Singhal: I think there is only one app it is called My Lloyd, My Lloyd is the name of the app and there is only one app through which you can do all of these things.

Sagar Kharkhane: I mean the total number of downloads of the app.

Nipun Singhal: The last I checked it was 104,000 downloads.

Sagar Kharkhane: And what would be the typical complaints that we had in terms of ACs and other appliances?

Nipun Singhal: See, they are very different for ACs, very different for other appliances because ACs have a very large percentage of preventive maintenance. So people calling up for preventive maintenance service, you never have preventive maintenance for washing machines and TVs. So in ACs the largest portion comes from preventive maintenance, preventive maintenance is getting those filters cleaned or AC serviced. In TVs and washing machines it is usually more breakdown, so that is really what is the kind of complaint that comes from the product categories. To give you an idea of percentage numbers, our breakdown calls in air conditioners was less than 0.24% of the total sales, which is a very big signal that our quality is very good, it is only 0.24% of the total sale is coming from breakdown. On TV it is slightly higher, it is about 1.3% but in that it is only breakdown, it is also including people who do not know how to use something, so there are some demo calls in that as well. So there are some smart TVs and other things where they do not know how to use that TV so they register a complaint, it is again part of breakdown only.

Sagar Kharkhane: And my last question would be, since we have focused on the customer delight, the biggest customer delight is not seeing price hikes. So going forward where we are facing a commodity price increase how would we strategize in terms of price hikes, would we be the last ones to take price hikes or if you could throw some light on that?

Nipun Singhal: No, I beg to differ in your comment that customers want lower price products, I do not believe in this at all, customers want high quality and very good service and they are willing to pay for it. The point is, if lower price products were preferred then I think all the low priced brands would be number one, number two or number three. The fact across the world, not only India, is that there is no notarized brand who is number one, number two or number three, so the testimony to that is that people want value, they want to see very good quality, they want to see best in class service and at reasonable price, it should not be the lowest, it should not be the highest. And if you look at our price offering today we are not the highest, we are not the premium category, we are not the bottom of the pack, we are in the middle, we are giving you a very, very good package of quality, service and price. And going ahead we have to also answer these investor calls where people ask me about margins and so on and so forth, so if there is a huge price increase in commodities I will have to pass through, it is a compulsion on me.

Moderator: Thank you. We have the next question from the line of MP Pathak, an individual investor. Please go ahead.

MP Pathak: There is one major concern for the shareholders regarding the insurance case. So what is the status of insurance case filed in the court and which court it is filed?

Nipun Singhal: As mentioned earlier, we are pursuing this legally. At the moment it is in the consumer forum.

Moderator: Thank you. We have the next question from the line of Harish Biyani from Kotak Securities. Please go ahead.

Harish Biyani: Sir, assuming a hypothetical situation where sales remains weak for the industry in the fourth quarter assuming similar to a situation where the summer season has not started well because of weather not being so conducive, situation which is very similar. In that particular case what is the kind of financing scheme, discounting scheme etc which is typically seen in the system and how much is it borne by the company, by the dealers and by the financing company? Any hypothetical example would be very useful.

Nipun Singhal: So, finance has been a tool in the business of consumer durables for the last many, many years, so it is not something new. The finance company never bears any cost, they are the ones who take the cost for the risk that they are taking and the money they are investing. So the cost is divided between the dealer and the company what is called MBD which is manufacturer buy down and DBD which is dealer buy down. So it is normally shared between the dealer and the company and these schemes have been there since the last several years, the question is because of demonetization, because of the cash crunch, the liquidity crunch I would say, the finance has now come into forefront. It was always there, I mean, people were not using finance because they had that cash available and we are saying we do not want finance. Today they are forced to use finance between the cash is not readily available to them. So finance is not a new tool which I am creating today, it has always been there. Does that answer your question?

Harish Biyani: Yes sir. So if I can persist on this, say hypothetically, like say a Chroma recently had this 24 months free EMI scheme because of the demonetization and their sales going down to half in the first couple of days post demonetization, so is it safe to presume that a large part of the hit would be taken by the companies and some part may be taken by the dealers and distributors and finally the retail…?

Nipun Singhal: No, as I mentioned to you the dealer buy down is there, there is a company buy down, there is a manufacturer buy down and depending on the cost of the scheme it is shared. So like for example, we have got already about 15 schemes in the market in which few schemes 100% manufacturer buy down in there, in some schemes we have a part dealer buy down, part manufacturer buy down. In some other schemes on certain products and certain models in certain geographies the zero buy down is more. So in today's time you can customize it. So I can specify that in inverter ACs my dealer buy down will be more or in six speed AC my dealer buy down will be less, on 50 inch TV dealer buy down will be this. So you can customize it model to model. For example, somebody who is buying expensive big TV, ultra-HD or a 65 inch TV, for him he can afford to pay a good price. So for him the buy downs will be more tilted towards the dealer which he recovers from the customer. But for smaller size TVs, for entry level products manufacturer will bear more buy down because the entry level customer is more price sensitive, he cannot afford an increase in price. So it is all customized today, you can even vary it from dealer to dealer. The beauty today of technology is that I can within a city also say that this dealer will have this buy down and this dealer will have this buy down. These are the kind of tools we have at our disposal today to help sales, which is why I have been repeatedly saying that I do not see this gloom and doom that market is going to collapse, demonetization has wiped out the economy, no. I am very bullish, November is a testimony that despite this month having the worst liquidity crunch, being a non-Diwali month, non-festive month, we have seen growth, which everybody was predicting 50% down, 70% down, we are up.

Harish Biyani: Quickly a couple of database questions, if you can help us with the A&P spend for the first half indicative number for the full year? Also for the consumer business the debtors, inventory and creditor days likely for the full year? And finally on the dealer distribution and service network, what is it likely for top eight cities and below the top eight cities?

Nipun Singhal: So the first point you talked about was the contribution of the cities. I mentioned earlier that around 40% right now of our total sale comes from the top eight cities which in the industry is about 43%. I was just answering some questions which I briefed on this. On the other front of what we think is going to be the trend going ahead, I think the TV and washing machine sales are going to increase, there is a low hanging fruit for Lloyd because the market share in ACs are pretty high, we are already at about 14%, so yes we will grow there as well but not in the same growth rate as what we will grow in smaller market shares like TV and washing machines. So this blend is set to change, and that is how the overall size of our business is going to increase. On the spends, again, Anita had just mentioned about Rs. 40 crores was spent in the first half on A&P and I think you can just about double that, roughly about Rs. 80 crores for the financial year.

Anita Kakar Sharma: And it would be around 4% of the top-line of the consumer business.

Harish Biyani: And debtors inventory and creditors days for consumers?

Nipun Singhal: I do not have off hand the breakup, Anita could probably give it to separately. But you have seen that the number of days have come down for the company as a whole by almost about 30 days.

Moderator: Thank you. We have the next question from the line of Devang Patel from Crest Investment. Please go ahead.

Devang Patel: Sir quickly if you can give us the revenue growth in ACs, TVs and washing machines in the first half?

Nipun Singhal: Yes, so in the first half the revenue was Rs. 461 crores in 2015 and against that we are at Rs. 623 crores, so Rs. 461 crores has increased to Rs. 623 crores. And in TVs it has increased from Rs. 124 crores to Rs. 250 crores, it has doubled in revenues. Similarly in the case of washing machines, from Rs. 32 crores it has gone up almost double to Rs. 55 crores.

Devang Patel: Sir can you tell us something about the margins because we are seeing very sharp growth in TV and washing machine, so at the gross or at the EBITDA level some comments on the margins, how are they shaping up?

Nipun Singhal: I mentioned, see in TVs and washing machines we are not so strong as a brand as of now, we have made a lot of head way and the numbers are testimony to that that we have made lot of head way. But in these two categories our EBITDA margins are lower, AC is a more established product, it is more known product from the Lloyd stable, so the margins are lower in TV and washing machines. Which is why if you see for this quarter, as the blend changed and more TV and washing machine was there, the EBITDA went down.

Devang Patel: Sir we understand that, but incrementally are we seeing improvement versus the previous quarter or…?

Nipun Singhal: Versus the previous quarter, I do not think there is any improvement, no. We are holding on to the same EBITDA level in TV, washing machine as we were in the previous corresponding quarter, there is no increase in price or change in our policy of paying out to the dealers, it is the same, we are still at a very nascent stage, from 1.5% - 2% we have come to 3.5%. When we cross that 8% of 10% market share in TVs, just like we have in ACs, then you will see the EBITDA changing.

Devang Patel: Sir and lastly, if GST were to come in April would you have some impact on your primary sales because dealers would want to take input credit under GST?

Nipun Singhal: No, I do not see any reason why there should be any problem because business cannot shut down, there is a policy which is being announced very soon of what will be the migration. And we have seen this earlier from the sales tax to VAT regime where there was a credit given for the carry forward credits of sales tax, so the same will happen in GST.

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

Atul Mehra: Sir, if you could talk about say last 12 months, what would be our contribution from the pure consumer durable business in terms of revenues, EBIT and from a capital employed perspective too?

Nipun Singhal: Last 12 months or last six months?

Atul Mehra: Last 12 months.

Nipun Singhal: Anita will have to dig that out.

Atul Mehra: For six months also should be okay, if it tends to give like an overall reflection of the business.

Nipun Singhal: So the six months consumer durable in 2015 was 57%, consumer durable share in the total standalone top-line was 57% for the six months, and for this year for 2016 - 2017 it is 67%.

Atul Mehra: And in terms of EBIT?

Nipun Singhal: In terms of EBIT consumer durable was Rs.51.69 crores in 2015 out of Rs. 101 crores, which almost 50%, 50.27% in the previous year in terms of EBIT which is now in this six months 53.16%. And absolutely number if you want, it is Rs. 51.69 crores was the EBIT for the last half year 2015 - 2016 and in 2016 - 2017 it is Rs. 70.66 crores.

Anita K Sharma: And coming on the revenue of the consumer business during the last full year, it was Rs. 13.84 crores which was 58% of the total turnover of the Company on the standalone basis.

Atul Mehra: That was last 12 months, right?

Nipun Singhal: Yes, FY15. So it is pretty much in line, 57% is what I said to you for this last six months from April to September 2015 was 57%, the whole year was 58% as she is saying and this half year you can see 67%. And this would probably be the extrapolation we could do for this FY as well.

Atul Mehra: And in terms of as of September 2016, what would be the capital employed as a percentage of overall capital employed in the consumer durable business?

Anita K Sharma: It is difficult to allocate the capital employed segment wise because most of the assets are used interchangeably among various segments.

Nipun Singhal: We have complete integration, we make heat exchangers, we make ACs and then we sell under Lloyd brand and these are three different segments. And the heat exchanger business is not only a captive business, we also have merchant sales of heat exchangers. Similarly, the OEM is not only for Lloyd brand, it is also for other brands. So how do we divide the capital between all the segments.

Atul Mehra: And secondly, you spoke about entire shareholder value creation and the exercise you have been doing with E&Y, so what does this really entail? So if you could just briefly talk about it in terms of how do you see this and what we could expect over here?

Nipun Singhal: I do not think this is the right forum to talk about something where a lot of work is in-progress, it is discussions happening, we do see that we are a diversified business and therefore we approached E&Y that how is it that we can unlock shareholder value. And that is what we announced to the stock exchange as well. So essentially when we do find some decisions taken and deliberations have been completed we will get back to you.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to Mr. Salil Utagi for his closing comments.

Salil Utagi: Thanks Nipun, thanks Anita and thanks Filip. Thanks all the participants. We can end the call now.

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

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