



LLOYD ELECTRIC & ENGINEERING LTD

159, Okhla Industrial Estate, Phase - III, New Delhi – 110 020 (INDIA)

Website: www.lloydengg.com

CIN: L29120RJ1987PLC012841

“Lloyd Electric & Engineering Limited Q2 FY-15 Updates on Conference Call” November 11, 2014

REPRESENTATIVES: Mr. Nipun Singhal, Whole Time Director & President of Consumer Durable Segment

Mr. Sanjeev Mittal, Sr. General Manager (Finance & Accounts)

Mrs. Anita K. Sharma, Company Secretary (acting as the Moderator)

Moderator: Good Evening to all of you and welcome to Lloyd Electric & Engineering Limited Q2 FY15 earnings conference call. We have with us on the call today, Mr. Nipun Singhal, Whole Time Director & President of Consumer Durable Segment and Mr. Sanjeev Mittal Sr. General Manager (Finance & Accounts). Before we proceed, let me tell you that all the participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. This is one hour conference and would request the participants to restrict to four questions at a time. Please note that this conference is being recorded. I now hand the conference over to Mr. Nipun Singhal, who will give an overview of the Quarter results and business segments. Thank you.



Nipun Singhal:

Good evening all. Let me take you through the financial highlights for the Qtr. And half year ended September 30, 14.

The following are the financial highlights of the Company for the *quarter ended Sep'14*

The Company reported Total Income from Operations of Rs 304.41 crores for the quarter ended September 30, 2014, as compared to Rs 230.27 crores in the corresponding Qtr of previous year Q2FY14, representing a growth of 32%.

EBITDA (Earnings before Interest, Depreciation & tax) for the quarter increased to Rs. 33.13 crores from Rs. 26.18 crores in the same period last year.

Net Profit grew by 10% to Rs. 4.39 crores as compared with the corresponding quarter of the previous year.

Earnings per share for the quarter (Face value of Rs 10/-) stood at Rs 1.24 vis-à-vis Rs 1.12 in the corresponding quarter of the previous year.

Segment-wise results for Q2FY15

There are 3 primary reportable segments:

- a) Consumer Durable
- b) OEM & packaged air-conditioning
- c) Heat Exchangers & components

During Q2 FY15, the consumer durable business, accounted for 51% of the total revenue; OEM & Packaged air-conditioning accounted for 25%; and revenue from Heat Exchangers & Other components was 24% of the total revenue. Though Q2 is typically a lean season for the air-conditioning business, an extended summer coupled with stable foreign exchanges and commodity prices resulted in improved profitability.

The following are the financial highlights of the Company for the *half year* ended September 30, 2014 (H1FY15)

- For the half-year ended September 30, 2014, the Company reported Total Operating Income of Rs 838.04 crores, as compared to Rs 604.54 crores over the same period in the previous year, a growth of 38%.
- Operating Profit (before interest, depreciation and tax) increased by 32% from Rs 66.57 crores to Rs 88.25 crores.



- Net Profit grew 33% from Rs 19.84 crores to Rs 26.41 crores in H1FY15.

I will now take you through our line of businesses and give an overview of the same

Segment I (Consumer Durable segment): This segment caters to Lloyd Branded product portfolio like air-conditioners, LED television, Washing Machines, Chest freezers, and other home appliances.

Segment II (OEM & Packaged Air-conditioning): This segment caters to contract manufacturing of room air-conditioners for Major AC brands in India and exports to leading brands in Africa and Middle East countries. The Company also supplies customized packaged AC solution to Railways, where we enjoy significant market share. Being accredited with IRIS certification, we have bagged first prestigious order from Bombardier Transportation for the supply of Roof mounted ventilation units for EMU coaches.

Segment III (Heat Exchangers & Components): The Company manufactures heat exchangers and evaporator coils for HVAC&R industry and Copper & brass heat exchangers for railways, and for industrial application and heavy automobiles.

This is basically the summary of what the company does and is a complete integration in the HVAC&R industry. Right from manufacturing the physical components, air-conditioners, we sell to OEM's and to the end customers, so an end-to-end solution in the air-conditioning space, which is very unique in India.

Many Companies selling branded products do not have the back end manufacturing and vice versa. Simultaneously, Companies strong in manufacturing do not make critical components or they do not have the brand to sell to end consumers. Lloyd is uniquely positioned, where we have entire integration from critical components to AC manufacturing to OEM and branded sales. Moreover, we have been awarded as one of the fastest growing brand in Asia.

This is a broad outlook on the segments we operate. With that, I am done with my opening remarks. We will open the lines for questions. We will try and answer as many questions as we can. To the extent we are unable, we will get back to you via email.

Moderator

Thank you very much Sir. Gentlemen, we will now begin the question and answer session. The first question is from the line of Dipen Shah from Kotak Securities.



Dipen Shah Sir, can u pls. provide the insights on the performance of the overseas subsidiaries and the reasons for the de-growth in their profits in Q2 FY15?

Nipun Singhal We are having two overseas subsidiaries in Prague, Czech Republic. – Lloyd Coils Europe s.r.o. and Janka Engineering s.r.o., which were acquired in the year 2008 and 2009 respectively. Lloyd Coils Europe s.r.o. is engaged in the manufacturing of heat exchangers for industrial purpose and caters to European market, whereas, Janka is the engaged in the manufacturing of air handling units and recently entered into new segment of manufacturing HVAC units for rolling stock manufacturers in Russia, Germany and Hungary.

During Q2 FY 15, the overseas subsidiaries reported total revenue of Euro 13.64 Million, i.e. 106.68 crores (1 Euro = 78 INR) as against the total revenue of Euro 13.27 Million during the same period last year, a marginal growth of 2%. However, the Profit After Tax for the Q2FY15 was Euro 0.56 Million (i.e. Rs. 4.37 cr.) as against Euro 1.16 Million in the corresponding period of the previous year, i.e. Rs. 9.8 crores. The reasons for the decline in the profits were mainly due to 1) In the previous H1FY14, the subsidiaries had booked insurance indemnification of Euro 0.30 Million (Net of expenses) 2) In Q2 FY 14, Janka's result was negatively impacted by additional cost incurred for the HVAC unit developed for Skoda transportation project for city Konya, in Turkey project, amounting to Euro 0.35 Million arising due to some design change and higher marketing expenses. Moreover the consolidated figures will always have a correction due to foreign exchange rates when compared with different period of time.

Dipen Shah Copper prices have been a bit down. Has that been beneficial to the Prague Subsidiaries?

Nipun Singhal No, this has not impacted the bottom line as the contracts are the long term contracts. We are dealing with Companies like Carrier, Emerson etc. In these long term contracts, there is a clause for increase/decrease in price as per the commodity as this is unpredictable. So any increase/decrease is passed on and hence does not impact the PAT.

Dipen Shah At the Domestic front, we do contract manufacturing for the OEM's, Can you put light on the same?

Nipun Singhal We do contract manufacturing for Top AC brands in India and for the export markets in Middle East and Africa. In the OEM segment, we have developed wide range of air-conditioners with star rating norms, including inverter split air conditioners, Heat and Cool products for export market, commercial AC -Cassette/floor standing etc.



Moderator: Thank you. The next question is from the line of Hardik Shah, Prospero Finvest Limited. Please go ahead.

Hardik Shah Sir, it seems we are losing our market share in branded business as Hitachi and other peers are growing at 50% whereas we have just shown a growth of 32-33%. What is the reason?

Nipun Singhal Hitachi does not do OEM and Heat Exchanger & Component selling. Also, if we do 50% growth in branded business that is brought down on an average to 32% by other segments which are not growing at that pace. The Component & Heat Exchanger business does not grow at 50%, likewise the packaged business for Railways. Though our branded business is higher than Hitachi, it comes down to 32% , because the other 2 segments are not growing at the same pace. Accordingly growth of 50% business in branded goods is brought down to 32% average.

Hardik Shah Can you provide us with the last year nos. so that year to year comparison be possible

Sanjeev Mittal In FY14, Consumer Durable segment did revenue of Rs. 633 crores and in H1FY15, the segment has reported total revenue of 427 crores. So, it is growing at 40-45% pace.

Hardik Shah With the change in composition of the sales going to branded, in future do we see our working capital cycle improving?

Nipun Singhal This issue is being addressed by the management by reducing the working capital cycle to the customers. However, one need to understand that when you are trying to grow in a consumer durable segment, which is cluttered with over 20 odd brands, and in terms of enticing the dealers or trade partners, we have to give them support by providing better payment terms. Moreover, when we are growing at this kind of pace, our inventories also need to be kept, as we are seeing those kinds of anticipated sales.

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

Anand Bhavnani Do you have any plans for exporting goods to other markets and if you could elaborate on the exports that we are doing.

Nipun Singhal We are engaged in exports across all our business segments. In Heat Exchangers, we export to USA, Dubai, Europe to Customers like Boush,



Climevta, Schneider. In OEM, we manufacture AC for brands in Middle East and Africa like Supra, Super General, Frego and so on.
In Consumer Durable segment we are exporting to SAARC countries like Nepal, Sri Lanka and very soon we are planning to increase our footprints in CIS countries and Middle East.

- Anand Bhavnani With Rupee being stable do we see further increase in the exports?
- Nipun Singhal Not significantly as there is lot of opportunity in India, the way the market is growing. No doubt organic growth would be there within the same customers. It would remain around 20%
- Anand Bhavnani Can you put light to the E-commerce strategy and how do we plan to leverage this particular channel for the white good segment and the Company's Strategy towards the same?
- Nipun Singhal Another fantastic question... You are absolutely right. We all have noticed the money being deployed in this e-commerce business and kind of attraction happening in this pace.. To address to this issue, Lloyd has in place a very unique strategy where we will follow a three prolonged approach. First would be a) revamping and making popular our own e-commerce portal www.mylloyd.com, so that in the next 2-3 months, people could buy products online through our own portal b) secondly, tie ups with E-commerce Companies like Flipcart and Snapdeal , wherein the negotiations are going on and would be finalized in the next 1-2 months c) Our third strategy is to involve our dealers and undertaking delivery of products through our dealer network.. Today, the biggest challenge for online is the infrastructure. We have more than 7000 dealers across India. So, our third strategy is to tell the customers that you order online but the delivery will come to you from the dealer who is closest to you.
- Moderator: Thank you Mr. Anand. The next question is from the line of Vidrum Mehta from Systematic Shares & Stock India Limited
- Vidrum Mehta Thank you sir for the opportunity extended. Can you please let us know, what is our current capacity of Air conditioners and its utilization and also what is the overall share of AC business, OEM & brand put together in India.
- Nipun Singhal Our Total Capacity for Room AC is 600,000 Nos. Utilization is 65% of the installed capacity since the first six months of the calendar year is the peak loads.



| | |
|---------------|---|
| Vidrum Mehta | You are the OEM for most AC players, what would be our overall share in terms of Ac in India for both OEM & branded |
| Nipun Singhal | Our Market share in terms of AC under OEM & branded sales put together is 12%. |
| Vidrum Mehta | What are the margins differentials in OEM and branded sales of Air Conditioners? |
| Nipun Singhal | Not much difference. Roughly 1%, when you are looking at the quantum growth in branded sales, the payout to the dealers are more. Or in other words, dealer margins are more aggressive when you scale up your volumes. Like the established brands need not pay higher margins as compared to the growing brands. Our strategy is to grow in top line over the years and penetrate the markets. Once the brand is established fully, we can enjoy higher margins. |
| Vidrum Mehta | What are the dealer margins that we are providing as compared to the peers? |
| Nipun Singhal | It all depends on the kind of dealers- retailers enjoys higher margins, distributors enjoy lesser margins. On an average 10% as compared to industry level of 5-6% |
| Vidrum Mehta | Out of the total capacity of air-conditioners, how much is allotted for branded and OEM |
| Nipun Singhal | I don't have those figures with me at the moment. We are also importing in branded, like certain type of air-conditioners and components are imported and in OEM we sell certain types of components and not the entire air-conditioner, like we sell air-conditioner without refrigerant gas or even without compressor. So it is very difficult to quantify how much is exactly going into branded and how much in OEM |
| Vidrum Mehta | We have been declaring 10% dividend. In terms of reward to shareholders, what do we feel going ahead, since the return ratios are very low. |
| Nipun Singhal | Our dividend policy is aligned with the Company's strategy to grow and penetrate the market. Our main objective is to scale up the volume and reach amongst the top five players in Consumer durables in India and simultaneously becoming global leader in HVAC&R industry. For this we need to conserve our resources and use it to scale our volumes. 'If you are something, you can pay something'. Even today at the level we are in consumer durable, we believe there's a huge potential If you see the new Electronic policy of Government of India, India is ranked as 12 th biggest Consumer durable market and by 2020 it is |



estimated to be the world's 5th biggest market. Which means the market will grow by 300% by where it is today. Consumer durable market including mobile phone market is estimated to be at 400 Billion dollar by 2020. The market in which Lloyd operates is expected to be at 35% of 400 Billion which is 140 Billion Dollar market by 2020. Our aim is to be a significant player when market scales to that level. Today China is 40 Million AC market, India is not even 10%. There is a huge potential with India being a tropical country as compared to China but market size of China is 10 times of India. The Board feels that we should conserve the resources and deploy in the growing business so as to be in a position to take the major chunk of the market share which will unfold in next 5-6 years. This would help us to generate higher rewards for the shareholders.

- Dhruvesh Sanghvi Can we say that overall business will keep growing at a pace of 30-35%
- Npiun Singhal This should be doable.
- Dhruvesh Sanghvi To my assumption, Whirpool or Hitachi would have a creditors days of less than 5 days or a week. Is that a right no., since we have 90 days. I need to understand the gap between the market and us and if you can throw some light.
- Nipun Singhal I haven't checked their balance sheet and hence cannot comment. Brands like Samsung or Hitachi, or other top players are the pull brand, which means that consumer pool is already existing for these brands. They operate on a sell out policy. They don't have to push the primary sale, which is our case. The credit policy depends on the season, off season, different dealers, distributors and markets. Once the brand becomes stronger, we can pass on the burden to the customers.
- We would like to answer all your queries as it makes us stronger as well. If you have any other point, pls. send us an email and we will come back to you on the same.
- Moderator Due to paucity of time, we will be taking the last question from the line of Rajeev Jawahar.
- Rajeev Jawahar On the Consolidated basis, is the profits lower than the standalone basis.
- Nipun Singhal No this is not the case. The consolidated profits are more than the standalone profits.
- Rajeev Jawahar But it is lower than the corresponding quarter of the previous year. The consolidated PAT during the Q2FY14 was Rs. 13.77 cr. as against the current Q2FY15 PAT of Rs. 8.72. The reasons for the decrease in



consolidated PAT and request that the clarification be given to the exchanges for the decline in the consolidated PAT during this quarter.

Nipun Singhal We will get back with the clarification.

Moderator: Thank you all for attending our call. We will have our next call at the end of Q3. If any questions have not been answered, please mail us and we will get back to you. Thanks a lot.