



*“Lloyd Electric & Engineering Limited
Q3 FY-15 Updates on Conference Call”*

January 30, 2015

*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 & Compliance Officer
(Acting as moderator)*

*Moderator: Good Evening to all of you and welcome to Lloyd Electric &
Engineering Limited Q3 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 Quarter and Nine Months ended December 31, 2014.

During the Quarter under review, the Company has reported Net Sales of Rs. 378.67 crores. The Segment wise break-up of Net Sales (Net of Inter-Segment Revenue) is as follows

Consumer Durable Segment constitutes around 37%

OEM's constitutes 17%

Packaged Air-conditioning for Railways constitutes 2%

Heat Exchangers & Radiators business contributed the biggest share of 44%

Whereas for the Nine Months ended December 2014, Consumer Durable Segment contributed 54.50% towards the total Revenue. Predominantly being an Air-conditioning industry, we see major revenue coming from this segment in Q1 & Q4 of the financial year.

During the quarter ending Dec'14, biggest share in the revenue is coming from Heat Exchangers & Component segment as during this quarter the components are sold to manufacturers of air-conditioners. Customers like Daikin India, buys components in the Quarter preceding the actual sale of Air conditioners. During the quarter under review, the expense at EBITA level has risen by 4%. The area of cost increase has been- a) increase of 2.3% in Material cost b) 0.60% in employee cost and c) other expenses increased by 1.1%. The increase in material cost is mainly attributable to the segmental sale because in heat exchanger segment, the material cost is around 85% of the total selling price. Moreover, the employee cost has increased over the corresponding quarter of previous year, due to annual increments and increase in manpower as the recruitments has taken place to gear up for the coming year growth forecast. Moreover, we have been investing continuously in building Lloyd Brand, thereby resulting in increased marketing expenditure.

Going ahead in the current quarter, we expect to maintain good growth in align with the corresponding quarter. Towards the brand promotion, we have come on board this ICC World Cup 2015, wherein Lloyd is a co-presenting sponsor of ICC World Cup broadcaster on TV channel Star sports HD.



We have 3 primary reportable segments.

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 manufacturing facility for this segment is based in Kala-amb- Himachal Pradesh, Pantnagar- Uttarakhand and Haridwar.

Segment III (Heat Exchangers & Components): The Company manufactures heat exchangers and evaporator coils for HVAC&R industry and Copper & brass heat exchangers/ Radiators for railways, and other industrial application and heavy automobiles. The manufacturing facility is in Bhiwadi-Rajasthan, Tauru- Haryana and Haridwar, Uttarakhand.

At the Bhiwadi facility, we are manufacturing heat exchangers and supplying to customers for different applications like for room air-conditioners, where we are catering to prestigious customers like Daikin India, to whom we are the sole suppliers of heat exchangers for room air-conditioners. The another application is heat exchangers for Precision air-conditioning industry, where we have customers like Stulz, Emerson and for refrigeration industry, we are supplying customized heat exchangers for customer like Frigoglass, supplier of visicoolers and showcase refrigerators to coca-cola worldwide. We are also supplying heat exchangers for the water cooler division of Carrier Gurgaon and Voltas. These are the basic segments to which our heat exchanger business is catering too. Similarly, the Radiators business is catering to different industrial applications like heat exchangers for earth-moving equipment and diesel locomotives for Railways.

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. This gives us a buying power, whereas our branded sales is much smaller than what our total buying power is for



copper, Aluminium and other raw materials. This is the broad outlook on the segments we operate.

Mr. Sanjeev Mittal

The Financial Highlights during the Quarter ended

The Company reported Total Income from Operations of Rs 381.11crores for the quarter ended December 31, 2014, as compared to Rs 326.57 crores in the corresponding Qtr of previous year Q3FY14, representing a growth of 16%.

EBITDA (Earnings before Interest, Depreciation & tax) for the quarter stood at Rs. 38.22 crores i.e. 10% as against EBITDA of Rs. 46.15 crores i.e. 14.20% during the corresponding period in the same period last year. The reason for the decrease in earnings has already been explained by Mr. Nipun Singhal

Profit Before tax was Rs. 6.90 crores during the quarter under review as against Rs. 23.15 crores during the corresponding quarter.

Earnings per share for the quarter (Face value of Rs 10/-) stood at Rs 1.47 vis-à-vis Rs 5.24 in the corresponding quarter of the previous year.

The Consolidated Income from Operations (together with Overseas subsidiary) was Rs. 473.80 crores during the quarter under review as against Rs. 432.25 crores during the corresponding quarter of the previous year.

The Consolidated Profit After Tax was Rs. 2.97 crores during the quarter under review as against Rs. 22.88 crores during the corresponding quarter of the previous year.

Moderator

Thank you very much Sir. Gentlemen, we will now begin the question and answer session. The first question is from the line of Vikram Kotak from Crest Capital & Investment.

Vikram Kotak

I have couple of questions. You are sponsoring World Cup. How much is the total spends and how much has already been accounted for in the profit and loss account.



<i>Nipun Singhal</i>	<i>Nothing has been accounted for as yet. The World Cup billing will happen in the current quarter. The Total spent would be roughly 10 crores.</i>
<i>Vikram Kotak</i>	<i>Are we going to Amortize it over the period or is it going to be a one time spend.</i>
<i>Sanjeev Mittal</i>	<i>One time spend</i>
<i>Vikram Kotak</i>	<i>Interest cost is going up year-on-year. Can you pls. explain the reason and also if the cost of funding going down or remaining same.</i>
<i>Sanjeev Mittal</i>	<i>It is related to the growth that we are achieving exponentially, requiring higher working capital , which in turn is leading to high interest cost. The cost of interest funding is remaining same.</i>
<i>Vikram Kotak</i>	<i>Fourth Quarter is the best quarter as per the last year nos. How the fourth quarter started and will you see the same kind of growth like 2/3rd of Sales coming from the first three quarters and 1/3rd coming from last quarters. Will the same trend going to continue or will it be something exceptional this time.</i>
<i>Sanjeev Mittal</i>	<i>At present Q1 & Q2 of a financial year constitutes around 70% of the total revenue. However, over a period of time, this trend would change due to multiple products.</i>
<i>Vikram Kotak</i>	<i>Can you throw light on the European subsidiaries and when you expect them to turn-around.</i>
<i>Anita Kakar</i>	<i>During the Quarter, both the wholly owned subsidiaries put together reported total Revenue of Euro 12 Million with Consolidated loss of Euro -0.28 Million.</i> <i>Whereas on the Nine months ended December 2014, the Total revenue from overseas subsidiaries was Euro 38.59 Million as against Euro 35.58 Million. Whereas the Consolidated Profit After tax for nine months ended December 2014 was Euro 1 Million approx.</i> <i>The reason for the negative PAT (profit after tax) was on account of Janka Engineering s.r.o. reporting loss of Euro 597,000 during the quarter under review, which had eroded the profit of Euro 3,10,000 reported by Lloyd Coils Europe s.ro.(LCE) during the quarter under review.</i>
<i>Vikram Kotak</i>	<i>Will the next year be fully profitable and breakeven both the subsidiaries</i>



- Sanjeev Mittal* LCE is already in profits, whereas we expect Janka to break-even in the next FY 16 and in the subsequent even it would also start generating profit. Various cost reduction and other measures are being undertaken to turnaround the same.
- Moderator* Thank you very much Sir. The next question is from the line of Sagar Parekh from Deep Financial Consultants Pvt. Ltd.
- Sagar Parekh* In current Quarter, the revenue from Heat Exchanger & Component Segment was higher and thereby gross margin were down. But when we compare y-o-y, in Q3 your Raw Material to sales cost was 77.75% as compared to 80.2% currently. So y-o-y there is no seasonable impact, since last year y-o-y heat exchanger would be forming a major part of the sale. So, why there is a difference in gross margin on y-o-y.
- Nipun Singhal* In consumer durable segment, the sale of LED television has been predominantly high in Q3 and margins for LED are less than margins from air-conditioners sale. We do not have any vertical integration in LED like what we have in AC's.
- Sagar Parekh* Can you provide the product-wise break-up of Consumer Durable segment
- Nipun Singhal* The Consumer Durable Segment contributed Rs. 140.47 crores i.e. 37% of the total revenue (less inter-segment sale) during the quarter under review. The break-up of Rs.140.47 cr. product-wise is as follows: Air-Conditioners: Rs. 61.72 crores; LED Television: Rs. 58.92 crores; Washing Machine: Rs. 16.49 crores and Others Rs. 3.34 crores.
- Sagar Parekh* Since Raw Material cost like Copper and Aluminium are coming down, so are we passing the same to customers



- Nipun Singhal* As far as the Component and Heat exchanger business is concerned, there is a complete pass-through as per the agreement with these large companies for rupee/dollar as well as commodity. Whereas in case of Consumer Durable segment, dealer/ distributor is our customer and we have to pass on. When the secondary sale happens to the end consumers, you will see the impact in the market. As of now, MOP is pretty much stagnant. So the prices at which Companies like Voltas selling to different dealers/ distributors has taken impact in align with the reduction in copper prices. The pass through from the company's end has happened whereas from the dealer's to the end customers will happen in the next 2 months.
- Sagar Parekh* what is our Working capital currently. At the end of FY 14, we were at 200 days of working capital, so going forward what is our outlook on the same. We believe as the Consumer Durable business sales increases, the working capital is bound to increase for a while as we have to keep stock at the dealer's end at the start of building up the brand. Can we come down to Whirpool's level say in 4 years
- Nipun Singhal* Absolutely, that is our intention. We have a systematic reduction plan and already we have started tightening up the area where our working capital cycle is too high. Gradually, over the years the no. of days of working capital will reduce.
- Sagar Parekh* What is the current working capital days as at Q3.
- Sanjeev Mittal* Around 200 days. We have already started tightening the credit period that we give and the inventory we keep, so that we reach the industry level in the coming years.
- Sagar Parekh* How we see the demand for washing machines from dealer's end and their acceptability of our product



- Nipun Singhal* *It is looking positive. For the last FY 14, we did roughly 24 crores sales of Washing Machine, whereas in Nine months ended Dec'14, we did 42 crores of Washing Machine sales.*
- Sagar Parekh* *What is the reason for promoters coming out with warrants issue and what is our plan to do with the money*
- Anita Kakar* *Promoters plan to increase their stake in the Company and the proceeds from warrant issue shall be utilized for debt reduction and augmentation of long term working capital.*
- Sagar Parekh* *What is the current debt level*
- Sanjeev Mittal* *Around Rs. 680 crores, including working capital.*
- Moderator* *Thank you very much Sir. The next question is from the line of Ritin Shah from Crest capital*
- Ritin Shah* *Company is planning for issuing 60 lacs warrants. What is the reason and what company will do with the money and at what price.*
- Anita kakar* *Promoters plan to increase their stake in the Company and the proceeds from warrant issue shall be utilized for debt reduction and augmentation of long term working capital. The pricing would be minimum price calculated as per the SEBI guidelines with relevant date as 5th February 2015.*
- Ritin Shah* *What would be the promoter's stake after issue of warrants*
- Anita Kakar* *around 57% post conversion of warrants*
- Moderator* *Thank you very much Sir. The next question is from the line of Sagar Parekh from Deep Financial Consultants Pvt. Ltd.*



- Sagar Parekh* *How many no. of dealers we have as on date*
- Nipun Singhal* *Some dealers we go directly and some through distributors. So total direct and indirect dealers are 7000 plus.*
- Sagar Parekh* *Going forward once we build the brand, what is our target of advertisement expense to Sales ratio*
- Nipun Singhal* *At present we don't have any such ratio in mind, because we are growing brand and ratio's does not work like this. But what is the share of voice in the market like there are 20 brands which are communicating and we have to be in line with what others are doing*
- Sagar Parekh* *Going forward, are you going to add more dealers or are you going to churn out sales per dealer*
- Nipun Singhal* *It will be a combination of both. Definitely the no. of dealers will grow. That is the norm today, because everybody is in Multiple brand outlet (MBO) and in MBO it is difficult to extract sale per counter. Every MBO will have 5-7 brands which they have to satisfy. So the right way is not to increase the counter share but the number of dealers*
- Sagar Parekh* *What are the sustainable margins that you see once your brand is established and you have sufficient sales coming from consumer durable sector, what kind of margins do we expect going forward.*
- Nipun Singhal* *On EBITA level, our consumer durable business currently gives 11-12%. Again what will be the scenario in two years later as how well our online strategy works. This year we are going to kick off a campaign to promote our own website www.myllloyd.com. You will see adds on the digital space as well as world cup promoting our own website www.myllloyd.com. We don't know as to how this entire e-commerce*



will work for consumer durable. But if the e-commerce e-tailing business increases and we find attraction coming on e-tailing, then there can be substantial increase in margins in next 2-3 years.

Moderator Thank you very much Sir. The next question is from the line of Vivek Sharma from ICICI securities.

Vivek Sharma How much has been the volume in Air-conditioning business in 3 months and nine months ended Dec'14 in terms of growth

Nipun singhal The increase in quantity of Air conditioning sales on y-o-y for Nine months is 40%. We don't have the exact nos. with us at present.

Vivek Sharma how has been the environment post festive season? We have gathered from few distributors that there has been a sharp slowdown post the festive season.

Nipun Singhal This is absolutely correct. We have observed that post Diwali, there was a complete drop in sales in December and January has also not looked up very well. In January'15, there has been 2% increase in excise duty. Both these factors has accounted for a very damp sale.

Moderator Thank you very much Sir. The next question is from the line of Reddy from Merger India Info.

Reddy How much amount has been spent on advertisement in Nine month ended Dec'14 since we are planning to spend roughly 10 cr. is last quarter

Nipun Singhal We have already spent 20 crores plus in Nine months ended Dec'14.

Reddy Does it going to impact substantially the results of 4th quarter with this additional one time spent of 10 cr on world cup.



- Nipun Singhal* *No. It is not going to impact the results in 4th quarter. Since billing for Feb'15 would be booked in March'15 and billing for March'15 in the next FY 15-16.*
- Reddy* *In the corresponding quarter last year, foreign subsidiaries has done well as compared to current quarter.*
- Sanjeev Mittal* *There has been some insurance claim in the corresponding quarter of the previous year and hence the results has been much better.*
- Moderator:* *Thank you all for attending our call. We will have our next call at the end of Q4. If any questions have not been answered, please mail us and we will get back to you. Thanks a lot.*