



“Lloyd Electric and Engineering Limited Q4 FY 2016  
Earnings Conference Call”

May 31, 2016



**ANALYST:**

**MR. SALIL UTAGI - ASSISTANT VICE PRESIDENT -  
INSTITUTIONAL RESEARCH - SYSTEMATIX SHARES &  
STOCKS LIMITED**

**MANAGEMENT:**

**MR. NIPUN SINGHAL – WHOLE TIME DIRECTOR & CHIEF  
EXECUTIVE OFFICER (CONSUMER DURABLES) – LLOYD  
ELECTRIC AND ENGINEERING LIMITED**

**MR. FILIP EISENREICH – MANAGING DIRECTOR  
(OVERSEAS SUBSIDIARY) - LLOYD ELECTRIC AND  
ENGINEERING LIMITED**

**MR. MUKAT SHARMA – WHOLE TIME DIRECTOR &  
CHIEF FINANCIAL OFFICER - LLOYD ELECTRIC AND  
ENGINEERING LIMITED**

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



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**Moderator:** Ladies and gentlemen, good day and welcome to the Lloyd Electric and Engineering Q4 FY 2016 Results Conference Call, hosted by Systematix Shares and Stocks 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, please signal an 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 Systematix Shares and Stocks. Thank you and over to you Sir!

**Salil Utagi:** Thanks. Good evening to the Lloyd Electric and Engineering 4Q FY 2016 results concall. We have senior management of Lloyd with us. The management will be represented by Mr. Nipun Singhal Whole time Director and CEO of Consumer Durables, Mr. Filip Eisenreich, MD of overseas subsidiary, Mr. Mukat Sharma, Whole Time Director and CFO and Ms. Anita Kakar Sharma, Company Secretary. Now I hand over the call to Ms. Anita Sharma for her opening remarks.

**Anita Kakar Sharma:** Thank you Salil. A very good afternoon to all of you. On behalf of the management of Lloyd Electric and Engineering Limited, I welcome you all to the Q4 FY16 earning call. I will take you through the financial highlight of the quarter and year under review and thereafter we will be open for the question and answer session. We will try to answer all the questions to the extent possible. In case any questions remain unanswered due to time constraint we would get back to you soon.

The company delivered a strong performance during FY16 with standalone revenue registering a growth of 30% to 2383 Crores. The growth was mainly led by the consumer durable business, which reported outstanding revenue growth of 59% over the last year. This was primarily as a result of extensive marketing initiative undertaken by the company, expansion in dealer networks and customer delight by offering quality products with after sales services. All these factors resulted in Lloyd band enjoying about 13% market share in the Indian room AC market during the year under review and ranking amongst the top five players in the Indian RAC market.

Due to the volatilities and the uncertainties in the foreign exchange market company is exposed to currency risk arising out of trade exposures. Due to the diverse currency movements in FY2015-2016 the company reported fluctuation loss of approximately 26 Crores during the year under review which affected the EBITDA margin to decline by 1.28% over the previous year. The company is taking effective measures to mitigate the risk arising out of adverse exchange rate fluctuation through various hedging options and an effective risk management policy has been redefined to mitigate the risk arising out of the exchange fluctuations.

During the year the company has provided for the fire insurance claim of 45.80 Crores as an exceptional item while pursuing it legally as well. In the international business the overall



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situation in Europe was significantly influenced by continuing difficulties in the Russian markets. Revenue of Lloyd Coils Europe decreased by less than 3% mainly on account of metal price effect and reached €34.4 million. Major sales loss has been reported in Russia and UK both being markets with exceptionally high margin level. To compensate the loss, new business has been acquired primarily in Germany where the price level is much more competitive.

Moreover new sales were targeted mainly in the strategic segment of close control AC which is a new product range for Lloyd Coil Europe. As a result of the above factors, the profitability of LCE decreased dramatically with EBITDA being only €0.7 million. At the same time the steps are also taken to regain the part of the lost volume in UK and a few opportunities in Italy.

After a tremendous sales growth in Janka during the previous year, the year 2016 suffered a huge decline in the sales. The total sales dropped by 24% down to €1 million. Most of the sales loss comes from the air handling unit business while railway, HVAC and industrial cooling stay at similar level as the previous year.

Similarly as for LCE also Janka suffered substantial loss due to the market development in Russia. Also couple of larger projects in the domestic market have been postponed by a few months thus making a gap in the factory load during the year as a result thereof Janka reported a loss of EBITDA being -€1.1 million. In the recent months we have initiated larger revitalization project for Janka consisting of three areas designed driven cost reduction, procurement and head count. Total yearly savings identified by the external restructuring experts are estimated to be around €1 to €2 million. One project in the railway HVAC is currently under preparation with Noske-Kaeser's rail and vehicle business and should come into production from early 2017.

Noske-Kaeser's Rail and Vehicle Germany has been incorporated in August 2015 but this business was taken over during the last quarter. For the period since the acquisition of the Noske-Kaeser's Rail and Vehicle business the sales were €0.9 million with EBITDA of €0000. The goal is to utilise the group's synergy and continuously transfer the assembly line and the technology to the Prague facility. For this purpose Janka has already kicked off IRIS certification process with an intention to obtain this certification by the middle of the next year. Since February 2016 external restructuring expert was being hired and proposed name cost saving actions, which will be implemented in the current financial year.

I will provide you with the key financial highlights. On the standalone basis during the quarter, the revenue from the operations stood at 810 Crores as compared to 618 Crores in the corresponding quarter last year representing a growth of 31%. The operating profit for the quarter was marginally higher by 7% at 108 Crores as compared to 101 Crores in the corresponding quarter last year. The profit before exceptional item and tax stood at 65 Crores as compared to 63 Crores during the corresponding quarter last year. During the quarter under review the company has written 45.8 Crores of insurance claims arising out of fire in August 2013 as an exceptional



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item as it has been declined by the insurance company. Nevertheless the company is pursuing its entitlement and has initiated appropriate legal recourse. Consequently, the profit after exceptional item and tax declined to 8.64 Crores as against 50 Crores during the corresponding quarter last year.

For the year ended March 31, 2016 the revenue from the operations grew by 30% to 2383 Crores as compared to 1835 during the previous year. Other expenses include the loss on the foreign currency fluctuations of 26 Crores incurred during the year as against the gain of 4 Crores during the last year. Operating profit for the year was higher by 17% to 264 Crores as compared to 225 Crores in the previous year. The profit before exceptional item and the tax stood at 125 Crores as compared to 103 Crores during the corresponding quarter last year thereby registering an increase of 21%. The profit after exceptional item arising out of writes off of insurance claim and tax stood at 56 Crores as against 82 Crores during the previous year.

The board has recommended the dividend of Rs.1.3 per share for the year ended March 31, 2016. On the consolidated basis, the revenue from the operations for the year ended March 31, 2016 was 2715 Crores as compared to 2173 Crores during the previous year registering a growth of 25%. Operating profit for the year was marginally higher to 263 Crores as compared to 240 Crores in the previous year. Due to the losses incurred by LCE and Janka the consolidated profit before exceptional item and tax stood at 110 Crores and after tax was 42 Crores as compared to 111 Crores and 88 Crores respectively during the previous year.

In respect of the segmental information, the consumer durable segment turnover stood at 1385 Crores as compared to 870 Crores during the previous year registering a growth of 60%. In respect of the OEM and packaged air conditioning segment the segment revenue was higher at 850 Crores as compared to 751 Crores and the segment results stood at 50 Crores as against 40 Crores. The Railway business for the supply of package HVAC units further contributed towards the growth. In the Railway segment the company has during the last quarter signed the transfer technology agreement with Toshiba Japan for the supply of HVAC unit for the Delhi Metro RS-10 project.

**Heat exchangers and the component segment:** The segment revenue and the result was higher at 589 Crores and 82 Crores as compared to 581 Crores and 69 Crores respectively during the last year. This segment caters to the manufacturing of heat exchangers and evaporator coils for the HPAC and refrigeration and copper and brass heat exchangers and radiators for the railways, heavy automobiles and other industrial application. Due to the decline in the aluminium and copper prices on the LME these segment revenue increased marginally whereas the segment results has increased on account of increased margin from the engine cooling business. In respect of the international business of the overseas subsidiaries, LCE & Janka reported total revenue of -€46 million as against €50 million in the previous year, decline by 8%. The profit after tax decreased dramatically to -€2.5 million due to major losses that has been reported from the sales



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loss in Russia and UK both these markets with exceptionally high margin level. With the recent acquisition of the rail and vehicle business of Noske-Kaeser Group Lloyd has been uniquely positioned to offer superior quality HVAC solutions for the upcoming high speed rail projects in India and other international markets. Thank you. We are now open to the question and answer session.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will move on to the next participant that is from the line of Dhruv Bhatia from AUM Advisor. Please go ahead.

**Dhruv Bhatia:** Thank you for the opportunity. From the full year point of view, as you mentioned in the consumer durables have grown 60% but the profitability has actually come down dramatically. So is it just purely because of the investments you are doing in ads or something or is there something more and the gross margin also is dipping on a year-on-year basis?

**Nipun Singhal:** Yes there is a drop in gross margins as well. we have dropped from about 11% EBITDA level in the previous year to 7.7%.

**Nipun Singhal:** Basically the gross margin has declined by 1%. We have taken a hit of about 1.5% in the consumer business because of the forex loss which Anita had mentioned earlier in the overview. We have got service expenses increased by about 0.3%. In rupee value it has gone up from 5 Crores to 11 Crores. Forex loss is about 20 Crores which is allocated to consumer business and there is a warranty provision made of about 0.2% because we have been giving in this year five years warranty, 60 months warranty. You must have seen a lot of ads of 60 months warranty and we have done very good sales and additional schemes & discounts also have been given to the trade of 0.4%. We had a very successful scheme in the first quarter called Lloyd Diamond Celebration Offer celebrating 60 years of being in AC business in the Lloyd Group and in this scheme we had given a scheme to dealers when they tied up quantity with us for January, February and March. Now normally you take an account on average. So actually it is a combination of all these factors.

**Dhruv Bhatia:** I mean since you have already been at 13% market share, you have reached to a level where you are on the top five AC players. So what is the strategy going forward? Are you going to be still continuing to aim for higher market share or is it that they are going to be working more on profitability improvement and reducing working capital requirements for this business?

**Nipun Singhal:** Absolutely, we have said this in the last quarter as well in all the previous concalls that our focus is not to blindly grow market share. We are definitely going to now look at how we can improve our market share first in other categories. I think there is a huge potential in LED so may be we will do some cost subsidy or help that the LED TV business and the washing business to grow because I see that there is a huge opportunity for Lloyd. We have the infrastructure, the awareness, we have the dealer network. So we should utilise resources now to grow LED TV and



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washing machine more than what AC will grow. Working capital we have been working on it for the last almost one and a half years and there has been a decline although marginal but there has been a decline in the last three or four quarters. So we will work on reducing working capital.

**Dhruv Bhatia:** So, you will be able to maintain that 11% odd margin going forward or you will be back to the 7 to 7.5% that was there?

**Nipun Singhal:** These are forward looking statements. Would not like to comment.

**Dhruv Bhatia:** Could you also just talk about the hedging policy that in the opening remarks you have mentioned that you are going to probably change the hedging policy so what exactly have you made any changes about that? Have you been starting to hedge with each? I mean how have you done the hedging policy now?

**Nipun Singhal:** See we have got several options in front of us. We have had an expert in this area in the company recently and we were looking at different kind of hedging opportunities. If I take a straight hedge it is very expensive. Our margins do not allow us to take a straight hedge. So we are looking at various tools including natural hedge that can minimise the impact on the forex fluctuations.

**Dhruv Bhatia:** Do you expect to grow the AC volumes in line with the industry?

**Nipun Singhal:** Actually so far we have all been doing much better than the industry growth but going ahead at least we will touch the industry growth for sure.

**Dhruv Bhatia:** Sir just a housekeeping question; in the other current liabilities there is a huge jump. I believe there is a current maturity which is pending may be for FY2017 so if you could just share the number for that? The current liabilities have gone up from 51 Crores to almost 171 Crores?

**Anita Kakar Sharma:** In the other current liabilities, the major increase is coming from the dues to the statutory bodies, which is 39 Crores and then there is 68 Crores which is on account of expenses payable which includes provision for the schemes provided in the last quarter. So that is all and the rest is the current maturity for the long-term borrowings.

**Dhruv Bhatia:** Could you also talk about the capex plans for FY2017?

**Nipun Singhal:** We do not have any significant as such. It is basically all maintenance capex for some debotting etc., so there is no major capex planned as of now. We have started manufacturing indoor units of split air-conditioners recently and would be investing in those moulds.

**Moderator:** The next question is from the line of Megha Hariramani from Pi Square Management. Please go ahead.



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- Megha Hariramani:** Thank you for the opportunity. I have a couple of questions; one is on the taxation part. I just wanted to understand how the taxation is going to be going forward. Currently at 55% this quarter that we have paid, so is it going to be the same or how is it going to work out?
- Anita Kakar Sharma:** Our effective tax rate after providing for the MAT credit entitlement is roughly 30%. For the current year tax has been calculated on that basis and the balance provision has been provided in the last quarter.
- Megha Hariramani:** So it is going to be 30% going forward?
- Anita Kakar Sharma:** Yes it could be around 30% going forward.
- Megha Hariramani:** How much is our advertisement spend for the year?
- Anita Kakar Sharma:** The advertisement spend for the year is 51 Crores for FY16.
- Megha Hariramani:** Do we intent to spend more going forward for the TV and washing machine part that you are going to expand?
- Nipun Singhal:** As a percentage, I do not think we are going to spend more.
- Nipun Singhal:** Almost at 3.75% of the Consumer Durable Segment
- Nipun Singhal:** So whether to maintain advertisement budget at the same level so obviously the real number, the absolute number will go up but if the percentage will remain almost constant.
- Megha Hariramani:** Third one is on the TV panels that we were going to start manufacturing. Where do we stand with that?
- Nipun Singhal:** Actually that is a thought, which came when there was budget being introduced in India in February that there was stocked that there would be import duty imposed on panels. Right now panels which are used for manufacturing are exempt from import duty. It is imported at 0% duty. So that was something which we anticipated when the budget will come, but they will put import duties on panels and hence we are thinking of manufacturing panels here, but I think this year they have not done that so we have deferred our decisions to make panels in India because the tax policy is friendly enough to import panels without any duty.
- Megha Hariramani:** So the plan that we have had this year the value we were going to manufacture and start filling out the TV panels that has been deferred now?
- Nipun Singhal:** Because the duty structures remain the constant.



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- Megha Hariramani:** But was not it like for the reason that it will improve our margins?
- Nipun Singhal:** Yes of course, it will impact, but it has a very high capex. So capex justification will not come in one year. We said let us wait for one more year and then when the volumes further increase, then it would be much more viable to make this investment. So let us give up a more in terms of our volume and then we will invest in making panels here in India. As the duty structure change we would have been forced to immediately go in for the investment.
- Megha Hariramani:** So we have the entire game plan ready whenever that you take?
- Nipun Singhal:** Absolutely, we have shortlisted the vendors, we have got the quotes, we have understood what capacities we are going to be making, so everything is ready.
- Megha Hariramani:** That is really good. Can you also give us some segment wise breakup for the AC, TV, and washing machine for this quarter and the year end?
- Nipun Singhal:** I can give you first for the year, the year-on-year figure. So as Anita mentioned there is a growth in consumer product division of about 60% in topline and within the segment AC has grown the maximum. We have grown by 73% in air conditioner. TV has been 37% and washing machine has been 20%. This is on year-on-year basis. It is very similar on quarter-on-quarter basis. So ACs in quarter-on-quarter is also 73%, the only thing is the TV will be a little more than the washing machine by a few percentage. So it is almost mirroring the growth across the year. The quarter is mirroring that. That is why I mentioned earlier if you were in the call that I think this year we are going to focus very aggressively on television and washing machine and I know I am quite hopeful that we will have a very good growth this year on TV and washing machine.
- Megha Hariramani:** How much do we expect it to go to?
- Nipun Singhal:** I do not think it would be fair to comment on that but it will be much more aggressive than what is currently..
- Megha Hariramani:** The TV volumes were for this year?
- Nipun Singhal:** We would not like to share the figures due to confidentiality.
- Megha Hariramani:** I would not insist on that. Just a last question from my side what is the current ROCE?
- Nipun Singhal:** The current ROCE for the company is about 14%.
- Megha Hariramani:** Thank you Sir.





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- Moderator:** Thank you. The next question is from the line of Sureddi K Rao from mergersindiainfo.com Please go ahead.
- Sureddi K Rao:** Nipun was mentioning in straight hedge you do not have adequate cushion, but even if we have a straight hedge 25 Crores loss I do not think any hedge premium will be that expensive and most corporates does seem from your spread has come down almost 13% to 7%, that logic of completely covering whatever exposure not covering that was not very clear to me. If you cover all your exposure the cost will increase so substantially.
- Nipun Singhal:** Mr. Reddi, I just would like to share with you that the total loss during the year was about 25 Crores which is about 1.44% of the total topline. So if I look at the straight hedge I will be spending much more than 1.44%.
- Sureddi K Rao:** Are you sure? I mean if you take...
- Nipun Singhal:** Absolutely sure.
- Sureddi K Rao:** I will leave it that seems to be a little puzzling to me but I got what you said.
- Nipun Singhal:** Because today if you take a hedge on a monthly basis, it is about 0.40 paise, if you take on a monthly basis so if I take a three month hedge it comes to about almost 2%.
- Sureddi K Rao:** What is the FX amount involved in this total amount? What is the quantity?
- Nipun Singhal:** I do not have that details with me right now, but what I wanted to highlight here is that if you look at the total forex loss provided during the year it is Rs.25 Crores. If I was to hedge on a regular basis, a clean vanilla edge, the premium would be much more
- Sureddi K Rao:** But everything is not imported, anyway I will leave that point.
- Nipun Singhal:** I am saying the material cost which is imported see for example in air conditioners compressor is imported. There is a very high import content. Compressors are imported. Copper is imported. Aluminium is imported. In fact across segments even in heat exchanger business we are importing copper aluminium, in OEM business we are importing compressor, copper, aluminium, indoor units, in the case of TV business we are importing panels, so the import content is very, very high. So out of the total raw material cost, almost I would say 70% plus is import.
- Sureddi K Rao:** That is across the industry sir?
- Ankita Kakar Sharma:** Yes that is across the industry.



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**Sureddi K Rao:** But then everybody should have the FX losses which we do not find in your competitor, anyhow I will leave that point now, maybe I have not followed completely. My other question is with lot of negative, how you measure customer feedback, we see in the social media post service since you are growing at a very rapid pace are you able to meet the customer service requirements, we see lot of negative comments in the social media?

**Nipun Singhal:** This is one peculiarity of this business. People are very quick to post negative business. Very few will post positive comments. This is across for all brands. If you go to a site called Mouthshut.com you will see all my competitors there and the more they sell the more there are negative comments. It is like this. We have a mechanism within Lloyd where we address each and every customer through the KKG Code which means that if he does not give the code, we will call him up, find out the reason for his grievance and until he is satisfied, we will pursue the case with the customer, now there are certain customers who would like to literally go to blackmail and say I am going to post in social media unless you do it free or unless you replace the product or unless you do this. Now there is a limitation to customer delight. You do not succumb to blackmail, so while we make every effort to address genuine customer grievance and we have one of the best systems in the market with this KKG Code but if the customer despite that does not want to use that and wants to go to social media and try and blackmail the company, well that is his prerogative, he can do it anytime but if you see on the social media as well we have been replying to the comment and after that I have many cases and examples I can share with you also where the customer has come back on the same social media and said, no, we are very happy and we know our job was done. There is a special person who is focused on all these comments and we do post a reply. Please have a look. There are many cases where Lloyd has replied and even the customer thereafter replied and said we are very happy.

**Sureddi K. Rao:** Do you have the adequate capacity because we are going at a phenomenal rate, do you have the ACs, and do you have the capacity if there is further demand.

**Nipun Singhal:** Yes, we do have capacity. We are debottling some capacity at Pantnagar as well, so we will have capacity based on the demand going ahead .

**Sureddi K. Rao:** My last query is to Mr. Filip. Last time you mentioned some cost optimization, this foreign subsidiary are becoming a drag, when are going to see the light, are you going to break-even now in this financial year?

**Fllip Eisenreich:** Thank you. Actually the last quarter was of course was very weakened performance but this has been anticipated. All the trends from the last year we expect to continue until end of the financial year. Now, of course, there is light, thanks to the actions on the sales side and also being supported by the summer season which is coming. We have summer season starting in June and continuing until September/October time, so definitely in the first quarter of the current fiscal year will be higher in sales but it will be significantly higher than same quarter after last year, it



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will be definitely better comparing to the previous two quarters but it will be nothing exceptional compared to the previous two years or so definitely on the sales side there is certain support. Regarding the cost side as what was mentioned in the opening remarks, we have started some kind of revitalization right now which focuses on three areas, first is our design driven cost reduction which we are looking to redesign the product with the aim of curtail production cost and on the product we have identified savings already. We are recommending right now. The second area is in procurement purchasing prices and third area is in head count cost in the different model of working with agency workers and so on and so forth. All these three cost saving activities are in progress right now, some of them have been implemented already.

- Sureddi K. Rao:** In effect you are saying at least we will break-even in this financial year? Can we take that?
- Flip Eisenreich:** Of course it is our plan right now. It will largely depend on the sales development with the current outlook and the sales orders in pipeline we can see that the next two quarters should be break-even for the whole financial year of course we are taking measures to also maintain profitability, however at that time, we do not have 100% guarantee in terms of order intake.
- Sureddi K. Rao:** How is our order position with Railways, Anita madam was referring to some tie up?
- Mukat Sharma:** Recently we have signed Technology transfer agreement with Toshiba, Japan for the supply of the HVAC units for Delhi Metro RS10 project.
- Sureddi K. Rao:** But are you expecting good growth in business?
- Anita K. Sharma:** We are currently developing the prototype and the final orders is expected soon.. Due to confidentiality, we would not like to disclose the size of order.
- Moderator:** The next question is from the line of Achal Lohade from JM Financial, please go ahead.
- Achal Lohade:** I just wanted to understand if you could give industry market size for AC and TV and washing machine and what is our market share for FY 2016?
- Nipun Singhal:** This is a very good question because if you multiply by 3 you will get my quantity. It is an intelligent question because if I tell you my vision of the market and if I give you my market share you multiply that you get the quantity exactly which I was refraining from doing.
- Achal Lohade:** The market share I believed was based on revenues not really on quantities, is it other way?
- Nipun Singhal:** The difference between quantity and revenue is not that great, the ASP would not be that different. There are some brands which sell more high-end but it would not be different and I will answer the question the best possible. My estimation is that the market has grown very well for ACs consistently although there are other competitors who do not see the market growing I have always seen the market growing consistently. My bet is that the market is about 4 Million units.



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for last year. I estimated last year that about 4.2 million. I am a lone voice who is saying anything about 4 million. My calculation says that it is about 4.2 million for air conditioners. In TVs also I see the market a little bigger than my competitor. I think the LED TV market has grown by about 10 million or one Crore LED TVs. Most people put it at about 8.5 or 9, I think it is bigger than that and for washing machines it is about 5 million, so that is the market size which is there. We are going to see good growth in all the three categories going ahead. Obviously AC and TV will have much bigger rates of growth than washing machine and refrigerator simply because per room consumption of AC and LED TV is much more than washing machine and refrigerator. In a household you will have one washing machine, one refrigerator but in TV and AC you will have multiple products in one household, so growth rates of AC and TV will be more, also AC growth rate looks to be good because of penetration. We have had very low penetration, in fact, amongst the large appliances; the lowest penetration is an air conditioner, so the outlook for the industry is very good. You can see that there is a lot of investment being done by most brands in augmenting capacity and increasing market share, the real trick is how you remain relevant to the consumer and how you can differentiate where I think Lloyd has benefited the maximum. If you see our product, yes, it is a value product, we give you a reasonable price for a good product but there is nothing which is so different in our product. It is basically our whole after-sale service piece; the post sale management which has really set us apart from our competitors and that is what I feel is going to be the test of growth from here onwards.

**Achal Lohade:** What is the warranty provision we have provided for and how do we estimate going forward is it based on certain percentage of revenue or a different way of calculating that?

**Nipun Singhal:** You have to take the ageing of the product, like for example this year we have given 60 months warranty; of the 60 months warranty we have to put in a formula consider less for year one and slightly more for year two, slightly more for year three, slightly more for year four and then for the final year it will be the maximum allocation, so based on that we have done our workings and we have arrived at a warranty calculation..

**Moderator:** The next question is from the line of Yash Matai from Analyse Wise, please go ahead.

**Yash Matai:** I would like to know the strategy of the management in terms of expanding in Europe because I understand that overall that has been a big drag on the profitability of the company and in terms of revenue growth as well as margins we have been suffering there and even if we earn high margins I don't think the ROC will be good enough to rationalize that considering the high cost structure of the European operations, it will be good to have a perspective of the management on their philosophy of expanding European operations when we have so much of scope to grow domestic business in new categories, that would be nice to understand the perspective?

**Anita Kakar Sharma:** Filip, can you answer the synergies arising from the acquisition of Noske-Kaeser.



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**Filip Eisenreich:**

First of all let me tell you what is the business in Europe. There is area of heat exchangers which has been traditional always making good profit margin and we have suffered during the last year due to the crisis in Russia mostly, however we have recovered and we believe during this year there will be a significant improvement and we should return back to profitability numbers on production of heat exchangers, this is one big segment we are supplying in Europe. The other area and the biggest trouble maker let us say is R&D units manufacturing of LED which is very competitive market but still being quite large portion of the business here in France. There we are trying to expand the business in to Germany. We have been quite successful in expanding the business to Russia during the previous year but again due to the crisis in Russia, we lost everything that we built there and we are now starting again from scratch in the international part of the continent, so there the margin levels will never be excellent and we are also considering options of how to restructure this business including possible exit from this business. As of now, we continue to develop this part of the business as well because we need the volume, but in case we are able to grow other more businesses more then of course we will have to stick in the next year and for us the most strategic part of the business is the rail segment. The manufacturing of air conditioning unit for rail vehicles, there we have started about three years ago in stock operations, we have developed some provision in the central European market as of now, however the strategic plan of Lloyd is to expand more in this part of the business and this is also one of the reason for the acquisition of Noske-Kaeser's Rail & Vehicle business which was completed just a few months ago. The new acquisition of Noske-Kaeser which is a strong brand in rail and vehicle air conditioning I must say and we have acquired two entities one in Germany and one in New Zealand. In New Zealand it is complete production, engineering sales activity that is sort of autonomous, independent. In Germany, we have taken over just engineering and sales office of Noske-Kaeser and obviously the strategic idea for us is to shift all the production which is currently being outsourced to several European subcontractors, to shift all this production in to all production facility in Prague. Currently, the German part of Noske-Kaeser has about 6 million Euro in open orders and additional about 10 million Euros in sales pipeline with the execution over the next two to five years and of course it is getting more and more projects and for the current financial year we expect that we should make about 4 million Euro of sales from this German entity. The complete transfer of production to Prague cannot be done immediately because of the ongoing project, it is impossible to change the subcontractor in the middle of the project, however for the all new projects we are already planning production in Prague, this is basically additional of 5-6 million Euros that we see in the middle term that we should bring to the Prague operation from Noske-Kaeser increasing the share of the lower business within our product portfolio and at the same time adding the volume which is very much needed .

**Yash Matai:**

My second question is reg the working capital cycle I believe that the management has said that the branded business has a low working capital cycle compared to the B2B business but if I look at the numbers receivable days have actually increased from 2012 today from around 60 to



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around 80 to 90 days, so the numbers do not match with what the management is actually said about the consumer durable business, so any thoughts on that.

**Nipun Singhal:** I do not know from where you got the data because 2012 is when the consumer business just came in to Lloyd Electric from Fedders Lloyd but I have the data of the previous year versus this year, so the total number of days for the company for Lloyd Electric has reduced by seven days from 191 days to 184 days

**Yash Matai:** Is this for the consumer business?

**Nipun Singhal:** No, this is for the company as a whole. First I gave you the net working capital for the company as a whole. The net working capital in 2014-2015 was 191 days. It has come down to 184 days in the financial year. This is for the company as a whole but if I take only consumer business which of course has a lower cycle, it was 137 days in 2014-2015, it has come down to 112 days in FY 2015-2016. This is what I have been saying for the last three, four quarters that our efforts are now on to see how we can bring the working capital down and tighten the working capital cycle as we see that there is more brand pull. In the first few years we were pushing the brand and hence the working capital was broken vis-a-vis our competitor. As the brand is becoming stronger, you can see there is a decline in the working capital.

**Yash Matai:** My first question was misunderstood. I wanted a general overview of the management on the strategy for the international operations, the rationale for expanding internationally considering the slow growth in developed markets the high cost structure, which is margins, also the ROC, what exactly is the vision for expanding internationally, that was the question, not operational details?

**Filip Eisenreich:** Well actually I have explained much about the European side of the business, I cannot so much on the international global operations of the group. We have completed this acquisition. We would like to grow our business and this is our strategy right now on how the other international expansion is planned.

**Moderator:** The next question is from the line of Yash Aggarwal from Crest Wealth, please go ahead.

**Yash Aggarwal:** Coming back to your margins you mentioned that you are looking to grow your washing machine and ACs faster now improving that mix in consumer durable, since these are two lower margin products, do you anticipate pressure on margins on this account?

**Nipun Singhal:** Absolutely, there will be pressure on margins because AC is a higher margin product for us compared to TV and washing machine.

**Yash Aggarwal:** Coming to forex I wanted to understand it is rupee depreciation which is hurting you or rupee volatility?



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**Nipun Singhal:** It is volatility and depreciation both. I will explain to you how. The volatility part is there when you are giving a price circular. Every month you get a price circular and you cannot change the price on a daily basis. I cannot have a price circular linked to the forex market, so if it is very volatile, that is how it impacts us because I do not know how to correct the pricing middle of the month. From the point of view of depreciation yes we have a very high import content, I just mentioned earlier that more than 70% of our input raw material is imported and that is the reason why depreciation will definitely hit an importer, our natural hedge is very small, in fact we are working on trying to increase exports to neighbouring countries like Middle East. The discussion is that during the year we would like to launch Lloyd brand in Middle East market and create some sort of a natural hedge, but again even if this happens it will not be a very significant amount because we will just enter the market and by the time we find a freak in that new market it will not really be a significant natural hedge but that is the direction we are going now, so both volatility and depreciation both impacts us.

**Yash Aggarwal:** Just one observation on the previous working capital comment that you made, last year your consumer durable sales as percentage of consolidated sales was about 40% and this year it is 50%.

**Nipun Singhal:** Good observation, absolutely because you find that the better business which is less working capital business is growing, so from 49% it has now become 64%, so that is why you can see that the decline in the number of days for the enterprise as a whole, now we see this trend further increasing, you will find that consumer business will have a bigger percentage of the standalone sales even in 2015-2016, so as the CPD business has a bigger contribution, you will find that the working capital in CPD will further reduce and hence it will have a double impact on the enterprise as a whole.

**Yash Aggarwal:** Did you do any retrospective bonus charge on your employee cost because there was some amendment this fiscal? Standalone employee expense is about by 20 Crores in absolute terms, so is there any charge pertaining to the previous year?

**Ankita Kakar Sharma:** We will get back to you on this.

**Moderator:** The next question is from the line of MV Pathak an individual investor, please go ahead.

**MV Pathak:** What is the target set for this current financial for Lloyd branded products especially AC?

**Nipun Singhal:** I would not like to share my numbers because my competitor probably will get hold of this information. I would not like to share this information and anything which is forward looking guidance is something which we stay away from, so I would appreciate if you could ask me the questions on the performance which has already been done.

**MV Pathak:** Agreed. Other answers, I got from earlier discussion.



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**Moderator:** 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:** We thank all the participants and especially the management. Thank you all.

**Moderator:** Thank you members of the management team. Ladies and gentlemen, on behalf of Systematix Shares and Stocks this concludes this conference. Thank you for joining us and you may now disconnect your lines.

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CIN: L29120RJ1987PLC012841

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

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

website: [www.lloydengg.com](http://www.lloydengg.com) e-mail: investor.relation@lloydengg.com