# "Lloyd Electric and Engineering Limited Q1 FY 2017 Results Conference Call"

## August 31, 2016

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**Moderator:** Ladies and gentlemen, good day and welcome to Lloyd Electric and Engineering Limited Q1 FY 2017 Results Conference Call hosted by Systematix Shares & Stock Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jitendra Marchino from Systematix Shares & Stock. Thank you and over to you Sir!

**Jitendra Marchino**: Hi everybody. We welcome you on behalf of Systematix Shares and results conference call of Lloyd Electric and Engineering Limited. We have with us from the management Mr. Nipun Singhal - Whole Time Director & CEO - Consumer Durables, Mr. Filip Eisenreich – MD of Overseas Subsidiaries, Mr. Mukat Sharma – Whole Time Director & Chief Financial Officer and Ms. Anita K. Sharma – Company Secretary. I will hand over the call to Ms. Anita to start the call.

**Anita K. Sharma**: A very good evening to all of you. On behalf of the management of Lloyd Electric and Engineering Limited, I welcome you all to the Q1 FY2017 earning call. I will take you through the financial highlights for the quarter ended June 2016 and thereafter Mr. Nipun Singhal and Mr. Filip would provide the overview of the respective business segments and then we will open the lines 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 constraint, we would get back to you soon.

During the quarter ended June 2016, the Company had delivered a strong performance with standalone revenue registering a growth of 26% to Rs.894 Crores. The growth was mainly led by the consumer durable business, which reported robust increase in revenue growth of 43% over the corresponding quarter of the previous year and accounted to 70% of the total revenue of the standalone company during the quarter under review. This was primarily as a result of good air-conditioner sales arising out of extended summer season, which resulted in Lloyd's enjoying market share of around 14% and ranking amongst top 3 to 4 players in the Indian room AC market. The growth was also coupled with the increase in the market share in the LED TV segment.

Before I take you through the financial highlights we would like to inform you that the company has adopted the Indian Accounting Standard, Ind-AS effective April 1, 2016 and accordingly the financial results for the corresponding quarter has been compiled after making necessary adjustment in accordance with Ind-AS.

I will take you through the key financial highlights for the quarter under review. On the standalone basis, the total income from the operations for the Q1 FY2017 stood at 894 Crores as compare to 710 Crores in the corresponding quarter of the last year representing a growth of 26%. The operating profit, EBITDA excluding the non-operating income for the quarter was higher by 29% at Rs.94 Crores as compared to 73 Crores in the corresponding quarter last year. The profit before tax grew by 35% to 58 Crores as compared to 43 Crores during the corresponding quarter of the last year. The tax expense for the quarter was 14 Crores as compared to 9 Crores during the corresponding quarter of the previous year. Consequently, the profit after tax stood at 44 Crores as against 34 Crores in the corresponding quarter of the previous year, registering a tremendous growth of 29%. The other comprehensive income arising out of the effect of measuring of the quoted and the mutual fund investments at fair value stood at 0.29 Crores as against 0.16 Crores during the corresponding quarter of the previous year. Basic earnings per share for the quarter stood at Rs.12.21 as against 9.69 in Q1 FY2016.

The segmental performance- the consumer durable segment, the net revenue from this segment after providing for the sales and discounts in accordance with the Ind-AS reporting stood at 628 Crores as against 440 Crores during corresponding quarter of the previous year registering a growth of 43%. This was primarily as a result of extended marketing initiative undertaken by the company, expansion in dealer network and customer delight by offering quality product with best after sales services. All these factors resulted in Lloyd enjoying market share of around 14% in the Indian room AC market during the year under review. The segmental results stood at 49 Crores as against 37 Crores during the previous year.

The OEM and the packaged air-conditioning segment: the segmental revenue and the results was higher at 275 Crores and 23 Crores as compared to 210 Crores and 12 Crores respectively during last year. This is primarily due to the good summer season and the growth in the railway HVAC business, which has resulted in the segment delivering good margins.

Heat exchangers and the components segments: the segmental revenue and the result stood at 142 Crores and 19 Crores as compared to 146 Crores and 17 Crores respectively during the corresponding quarter of the previous year. This segment caters to the manufacturing of heat exchangers and the evaporator coils for the HVAC and refrigeration and copper and brass heat exchangers and the radiators for the railways, heavy automobiles and other industrial applications. Due to the decline in aluminium and the copper prices on the LMA, the segmental revenue declined marginally whereas the segment results has increased on account of increased margins from the Indian cooling business.

The international presence: During the quarter under review the total income from the overseas subsidiaries stood at Euro 14 million with all the subsidiaries reporting positive profit after tax which accounted in an aggregate to Euro 0.2 million. Following the efforts of the previous month Lloyd Coils Europe has benefited from profitability improvement achieved by both product cost reduction and selling price adjustment. Short-term cost reduction have been fully implemented and mid and long-term have started implementing hence you will see more cost reductions in the future. Despite the negative volume affect both lowers Lloyd Coils Europe and Janka has returned to positive profitability with EBITDA of around 5% whereas Janka continues to focus on the revitalization project on cost saving through design changes procurement actions and headcounts reduction. Most of the identified savings has been implemented during this quarter and started to take effect gradually. The newly acquired subsidiaries Noske Kaeser, Rail & Vehicle business also accounted to the revenue with positive profit after tax.

Now I would request Mr. Nipun Singhal to provide an overview of the Indian business. Over to you Sir!

**Nipun Singhal**: Thank you Anita and good evening everybody. I am delighted to tell you that this has been a very good quarter for Lloyd brand and Lloyd is now ranked number 3 in India in the room air-conditioning industry. I can just take you through a dissection of the product category wise performance. So ACs of course this was the season for ACs, April, May, June is always big in ACs and we have almost 82% of the total consumer product division revenue coming from ACs in this quarter and this was a 37% growth over the previous corresponding quarter.

As mentioned earlier in my concalls I was telling that in LED our market share is quite small and hence it is an opportunity for the company to even grow its LED market share. So although on a small base but the performance has been quite good. We have done about 111% growth in LED sales in this quarter. In washing machines as well we have a very small market base, so that has grown as well and growth is 33% versus the last corresponding quarter.

Overall, the consumer product division posted a 43% growth and this performance actually is a culmination of several activities that we have been doing over the last few years. I think I will just take you through a few of them and then in the question answer we can look at any more questions that you have.

I think the first and foremost point has been our focus on after sales service and consumer delight. If you remember about two years back we created Khushiyon Ki Guarantee and then we exemplified how we propose to give Khushiyon Ki Guarantee through the KKG code. This year we are the first company in the country to launch an app. It is called My Lloyd and it is free to download on Google as well as on iStore where the customer has for the first time access to the Lloyd CRN and in less than 10 seconds he can register his complaint, which may be for installation or breakdown or any other thing he requires. I think this app has been a revolutionary and customers have really, really liked this is the kind of convenience that Lloyd offers in rendering after sales service.

So the long-term commitment, which has been there for last 7 years in after sales service and now this app is something which has definitely helped our brand to become a favorite amongst consumers. So exactly what we find that all our initiatives of advertising and marketing are very innovative ideas which has led to the growth in the sales in this quarter and going ahead I think we should see good growth.

Some of the initiatives I will take you through one have been the association with Royal Challengers Bangalore. If any of you have seen TV you can see that the Lloyd logo on the jersey of the Royal Challengers Bangalore was well noticed being blue colour on a red jersey.

We have also focused on building stature and aspiration for our brand over the number of things like - Hyderabad Airport where we are present as you enter the airport on both sides so that whole traffic whether it is incoming outgoing or even just people coming to the airport to pickup and drop they will all be able to see Lloyd. These are giant 10-foot letters on both side of the road.

Apart from this our Golf Tournament, the Lloyd Business Today ProAm of Champion has become the largest corporate Golf Tournament in India where over 1000 CEOs and CFOs play this tournament across 10 cities. We are in fact taking it to level higher where we have now created the intercity challenge much like an IPL where we have now cities being represented by winners and they competing with each other for the best city award apart from the individual scores award. So it is efforts in marketing to build aspiration. It is undying spirit of giving the best in after sales service. I think which has caused the fancy of Indian consumers coupled with our premium quality and our reasonable prices I think we have done well in this quarter and I think we do well in the quarters to come as well. So I think this is the broad overview. I will now give it back to Anita.

**Anita K. Sharma**: Thank you Sir. I would request Filip to provide an overview of the overseas business. Over to you Filip!

**Filip Eisenreich**: Thank you Anita and good afternoon everybody. Just very brief summary from my side for the European operations if you had heard already from the opening remarks our major effort has been on the turnaround of the profitability of all the companies. This has been achieved through several actions. The most important were certain design driven cost reduction. So we design in partially of the products actions on the purchasing procurement side, so reductions in the purchase prices. We did certain selling price adjustments also in few segments in markets and last but not least we did several cost cuts in the labour side also. So that was quite significant labor cost reduction mainly for Janka business.

All in all we were able to return profitability back to black figures as you can you already heard the EBITDA is about plus 5% for all the entities right now and of course the actions that we have initiated and started will be really bringing more and more effect in the future. So we should see that positive impact also coming in the future.

What has not helped us a lot was the sale development, basically the market strength here in Europe is rather negative still, the rush in economy is basically zero levels for us so we do very, very little sales to Russia right now and also the Western European market is not doing well particularly we face issues in France, Spain, UK where we see the major decline of sales compared to previous quarter and this mostly affects the business of heat exchangers. So overall sales volume declined by about 14% from last quarter for all the entities whereas it is a comparable level from the same period last year but in the coil business the decline was over 15% both quarter-to-quarter as well as year-to-year.

This is the major issue that we are facing in the European market. We see certain overseas market development in few geographies namely it is Germany, it is Sweden, it is Central Europe market where the economy is still running at high levels and we see certain opportunities also to attack new accounts in these region. So basically just to sum up the product cost we manage to push down there were certain other cost reduction actions that started to take effect. The sales development is rather negative to us but nevertheless we are able to deliver positive profit number. That is it from me. Back to Anita!

**Anita K. Sharma**: Now we are open for the question and answer session. Can we have the first question please?

**Moderator**: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Harsh Vijay Shah from Crescita Investments. Please go ahead.

**Harsh Vijay Shah**: Good evening and very congratulations for great set of numbers. My question is on the front of working capital as compared to last full year, how did we do as working capital in this quarter. Was it better or was it little bit tightened.

**Nipun Singhal**: I can just give you some light. There is no significant change in the working capital number of days; however, as a policy we would like to compare working capital now on an annual basis because there is such a huge change in the sales on a quarterly basis and the trends are different for off-season and season. So the company has taken a stand we will now discuss working capital on an annual basis. I can give you an idea that there is not much change in number of days.

**Harsh Vijay Shah**: Second was question on the consumer durable side. Can you just give me a breakup of AC and non-AC sales if possible?

**Nipun Singhal**: As I explained to you 80% is the AC sales in this quarter and the LED TV was about 15% and 5% are washing machine and other product categories. April, May June it is summer so it is always ACs sale, then we will see the Q2 and Q3 we will probably see the AC percentage coming down.

**Harsh Vijay Shah**: I will join back the queue. Thank you.

**Moderator**: Thank you. The next question is from Gaurav Agarwal from Tatva Capital. Please go ahead.

**Gaurav Agarwal**: Sir could you just throw some light on this energy efficiency norms that the government is introducing and what would be the kind of potential that we have for our air-conditioners and what is the kind of technology change that is required and how would we position ourselves in the market vis-à-vis the Japanese players?

**Nipun Singhal**: That is great question. There are two trends happening in the market right now. There is one trend where the Bureau of Energy Efficiency is tightening the energy norms. For example what is five star today in 2018 January will become three star. So the norms have been tightened by the Bureau of Energy Efficiency on one side and the other side the penetration of inverter ACs is increasing day by day and if you can see the Japanese players are focusing more inverter ACs. Lloyd too has got a very exhaustive range of inverter ACs but we are going cautiously in terms of inverter ACs only in places where there is no high ambient because what we have seen with the experience of other Japanese brands I would not mention names there is a lot of failure in the BCDs because of the high ambient conditions. So right now we are focusing our inverter AC mostly in the coastal areas and areas which do not see 45 plus degree temperature. Although we are in the process of even developing and validating a product which will work at 55 degrees but as of now our inverter ACs are focusing on the coastal areas and areas which are not very high ambient. So I think in terms of preparedness we are absolutely ready. We have five star products right now. So the same product to become three star in 2018. In TVs there is going to be mandatory labeling for energy efficiency and we have done a lot of work to get a full range of TVs which are compliant with the new energy norms laid down by the government. Actually the date for mandatory labeling was already passed in June but the industry body has made a petition to extent time to get all the products labeled. Lloyd is absolutely ready with ACs and TVs with mandatory labeling.

**Gaurav Agarwal**: So when we go to this five star rating what is actually going to happen? Will the compressor become over efficient or are you going to increase the condenser and evaporator size to make is more efficient. So will the ACs become heavier and will the material input increased and become more expensive or is it just a compressor technology, which means that since we import the compressors and we will have to this pay the overseas supplier?

**Nipun Singhal**: No it is a combination of both. You can never achieve higher energy efficiency by just changing compressor. So if you go for a high-energy efficiency compressor the cost of compressor also goes up. Even the motor undergoes some changes. So your motor also cost goes up and likewise in the case of condenser and evaporator also you will have bigger evaporator and condenser. So it is a combination of all these things, which leads to higher energy efficiency. So definitely costs are going to go up in 2018 for equivalent five star because what is five star now is already more expensive than three star and three star will downgrade to one star.

**Gaurav Agarwal**: What I wanted to understand is that from Lloyd perspective in terms of the sales units, sales value and margins how would it look if we have say a 30% five star mix and the 70% three star mix in 2018-2019? What is it currently now and what will it looks like two years from now?

**Nipun Singhal**: So right now inverter is about 10% of my total sales. I think that in the next couple of years you will find inverter with ISER going up to about 35% to 40%. This is the trend we see all in all neighboring countries also. Pakistan for example I was talking to somebody, it has gone to 50% inverters. So inverter I think the percentage will increase to about 35% to 40% and between three star and five star, the five star 2018 five star market will shrink and you will have a new market opening up of may be two star in addition to three star. So what will be the picture today? Today let us say inverter is 10%, five star let us say 30% and 70% is three star. What could be the picture in 2018-2019 35% inverter, 5% five star, 40% three star and 20% two star.

**Gaurav Agarwal**: What would be the kind of price increase for the three star to three star in two years time and five star to five start or inverter to inverter in two years time?

**Nipun Singhal**: I think inverter prices will not change because inverters today also there is a standard of ISER which is not going to be revised in January 2018. So inverter prices are going to remain pretty much stable, which is why I said inverter is going to grow and eat into five star shares. Because the 2018-2019 five star will probably as expensive or little more expensive than the three star inverter. So therefore my prediction is that we will see inverter eating into the five star completely.

**Gaurav Agarwal**: Within inverter also we will see three star and five star Sir?

**Nipun Singhal**: I am saying between three star of today and three star of 2018-2019 you should see the same delta as what is the delta today between three star and five star because the three star of the future will be five star today same delta will operate. The difference between three star and five star which is about 12% to 15%. We continue to be the increase on three star to three star.

**Gaurav Agarwal**: What about this government saying that they said they will distribute LED bulbs and fans they are now going to distribute energy efficient air-conditioners at a predetermined price. What is the activity on the ground for that and how do you view that as a competitive challenge?

**Nipun Singhal**: We have an OEM business also. So if this really happens and we will be I think the best choice to do business with the government but as of now there is no RFQ there is nothing on the ground that is saying that what quantity they want to buy, what specifications they are looking for. There is nothing, which has come to us being one of the leading manufacturers of ACs in India I am sure the government would have to come to us for at least on RFQ.

**Gaurav Agarwal**: In terms of our product mix are we ready with all the energy categories that will come up in January 2018 such as five star inverters, five star normal, three star inverter, three star normal and below that I mean are we ready for that?

**Nipun Singhal**: Yes absolutely ready in fact we will be launching them in next year itself. 2017 itself has five star inverter with ISER as mandated with three star inverter. All the products will be available in 2017 itself. I think most of the industry is geared up. In fact there was an article I read a little while back that all the major industry geared or all geared up for this revision in energy efficiency norms.

**Gaurav Agarwal**: What would be the kind of price increase that we see because of this ramp up in energy efficiency?

**Nipun Singhal**: I think there will be some increase definitely like I said in the case of three star but inverters I do not see any price increase. So it is a mixed bag. It is not that it is all one way or all the other way. There will be a new category created like for example today nobody buys two star ACs but I can get a new category of two star ACs where the price will be very similar to the three star today. So customers who are price conscious will go two star, customers who have a higher running they will go to three star and then there will be balance customer going to inverters.

**Gaurav Agarwal**: Thank you. Wish you all the best.

**Moderator**: Thank you. We will take the next question from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

**Sanjeev Zarbade**: If you could touch upon what is the outlook for the upcoming festive season for the room air-conditioning system? What kind of growth we can expect? The first quarter was very good of course enabled by the strong and favorable weather conditions but how this upcoming festive season would pan out if you could just throw some light on that?

**Nipun Singhal**: I think the current this quarter as well as next quarter festive quarter looks to be very promising. There are several factors. One is the money, which is being paid to government employees. I think that money should have been in the cycle in this month or early next month. So that thing will be a big boost to the entire industry. So this is from a macro perspective that there is a huge payout happening in the seventh pay commission, more closely to Lloyd not affecting the entire industry I think like I mentioned in my opening overview we have restrict that sweet spot with consumers. Be it TVs or washing machines or ACs today dealers and distributors who talk to me says that Lloyd is today a brand, which is aspired for demand. So I definitely I am very confident that this quarter, the next quarter the festive season is going to be very good for Lloyd of course it will be led more by very robust growth in television because the coming quarter is more television centric than AC centric. There will be very good growth in ACs as well but the mix which is today 80-20, 80% AC and 20% other products will change to lower number of AC and more in TV and washing machines. You see very good numbers in TVs and washing machines in the coming two quarters.

**Sanjeev Zarbade**: Sir again just going back to the earlier question regarding this new rating becoming a mandatory from January 2018, so some of the news report they say that for example the vendors will be stocking the old inventory till the end of the 2017 and then the flushing out of the inventory will begin and will go until March 2018. So I mean what exactly you foresee happening in January 2018?

**Nipun Singhal**: It could well be what you are saying is right because that you see earlier also when the star rating changes there is some stock which is in the pipeline and some people might feel that it is prudent to stock up but it all soften in nature whereas one month inventory which is overflow or two months or something is also temporary eventually if you look at direction the direction long-term is going to be off tighter energy efficiency norms we will find that the product will be better products for consumers. So that trend is more important than one month stocking or two month stocking.

**Sanjeev Zarbade**: So basically the lower rating ACs will have to be faced out from 2017 end?

**Nipun Singhal**: Absolutely.

**Sanjeev Zarbade**: At this moment, is it not possible to quantify what kind of price increase which can happen when the ACs are upgraded for five star or something?

**Nipun Singhal**: The increase in prices will be across the industry. It will not be only for Lloyd because the energy norms apply to all the brands. So I think whatever will be the increase we are complete pass through. I mean there will be no adjustment from our side either upwards or downwards because of the revision in norms. Now what has to be seen is that when these prices are revised will customers still choose to buy a three star, which is today five star or they migrate to a two star. Inverter as I said is going to definitely increase. Inverter sales are going to increase because inverter prices are not going to go up as substantially as it goes for 2016.

**Sanjeev Zarbade**: Am I right in saying that currently the inverter ACs there are no comparisons between different brand and post January 2018 there will be benchmarked as per the rating. So January 2018 all the inverter ACs will follow consistent rating, which is not there right now. Is that?

**Nipun Singhal**: It is there . ISER is there. In fact most brands are given the label also for the inverter ACs and Lloyd is also very prepared for the ISER and our products are ISER compliant. So we are driving the change. We would like people to know what they are buying because that help us a lot.

**Sanjeev Zarbade**: Thanks for your outcome.

**Moderator**: Thank you. The next question is from S Reddy from Mergers India Info.com. Please go ahead.

**S Reddy**: Congratulation for good set of quarter numbers. I have couple of queries. One other expenses figure is 72.47 Crores compare to 51.51 in the June quarter. There is a substantial increase. Is there any FX losses are also embedded in this figure?

**Anita K. Sharma**: The foreign exchange loss has been there, which is to the extent of 5.5 Crores.

**S Reddy**: My second query is your foreign subsidiaries are positive on the EBITDA level. Are there any PAT all the three subsidiaries are negative.

**Anita K. Sharma**: I would request Filip to address this question. Filip can you please take it up?

**Filip Eisenreich**: I did not get it. What was the question?

**S Reddy**: At EBITDA level you have about 5% margin is what you mentioned. At the PAT level you have a loss?

**Filip Eisenreich**: No we are currently just let me check all of them but I think in this quarter we are plus for all the entities on the bottomline as well. So even net profit is positive for all the entities for some of them is negligible is just symbolically.

**S Reddy**: Even Janka is also profitable at PAT level?

**Filip Eisenreich**: It is plus 50000 Euro so let us say Euro it is likely above this.

**S Reddy**: Post acquisition of this German Kaeser do you see any improvement in your order position for metro rails and defense orders?

**Filip Eisenreich**: Well not for Europe actually as we discuss last time Noske-Kaeser rail is consist of two entities. One in New Zealand and one in Germany, I can speak only for the German part where we basically only sales and engineering office of 10 people and the major focus there is on the railway or vehicle so it mostly trains or suburban type of trains.

**S Reddy**: Can we presume for going forward you will be positive at EBITDA level at least?

**Filip Eisenreich**: It is definitely that target that we try to maintain we have reduced the cost structure. So the breakeven point is slightly lower than it is used to be. As I mentioned in my opening comments we faced certain issues on the market dynamics in Western Europe and in Russia. So it all depends what will be the volume that we are able to achieve but if we are able and so far the outlook for next quarter for example is similar as what are the actual figures for last quarter. So yes definitely the target to be maintain the profitability and topline at similar level as we see today.

**S Reddy**: My last query will be is the company GST ready in terms of both IT and the processes?

**Nipun Singhal**: We are discussing with couple of companies in fact KPMG had come in the other day to make a presentation and we have actually now listed down what are the actions to be taken from an IT perspective, from a business perspective but that is work-in-progress. I was not say that completely ready work is on for upgrade to GST. We are talking to SAP as well. How they are going to give us a patch or what will be the direction ahead. So we are still waiting but we are started engaging with consultants and trying to identify the areas what needs to be rectified or modified for GST.

**S Reddy**: My last query to Anita madam is I think we have appointed E&Y consultant for enhancing shareholder value wherever we? Are they submitted the recommendations?

**Nipun Singhal**: Not yet. We are still awaiting their recommendations. So as and when it comes then we will talk about it.

**S Reddy**: I appreciate. Good luck for the next quarter.

**Moderator**: Thank you. We will take the next question from Girisha Saraf from Ambit Capital. Please go ahead.

**Girisha Saraf**: My first question is that now when you speak, when you say that you are third in the market when we talk about room air conditioners with 14% market share so technically, you just have Voltas and LG ahead of you. So is this quarter it was 14%. Could you please give similar numbers for the same quarter last year like market share percentage and secondly could you please also repeat the year-on-year growth this quarter for LEDs?

**Nipun Singhal**: I will answer the second question first. The LED quantity grew by 111% with the corresponding quarter, 111%, so it has more than doubled. In washing machine, it was 33% higher and for televisions it was 37% higher. So the blended consumer product business grew by 43%. The first part of your question I do not have last year's market share data in front of me, but if you assume that the market has grown by 15% this year, and if we have grown by 37% you can probably do a back calculation. Market has grown by 15%. We have grown by 37%, so you can extrapolate what would be the market share back in the corresponding quarter of the previous year.

**Girisha Saraf**: But then you are not giving any number corresponding to the 14% you are stating now?

**Nipun Singhal**: You can just do the calculation.

**Girisha Saraf**: Thank you.

**Moderator**: Thank you. We will take the next question from the line of Yash Agarwal from Crest Wealth Management. Please go ahead.

**Yash Agarwal**: I wanted to know what has led to such a good performance in the OEM and packaged air conditioner? How sustainable this is?

**Nipun Singhal**: I think if you look at the OEM in packaged air conditioners, part of that growth came from the railway segment so in railways we have done a very, very good growth, about 30% growth has happened in railways.

**Yash Agarwal**: What product do you supply to railways?

**Nipun Singhal**: We supply several products. We supply air-conditioners, which are the rooftop mounted air conditioners for EMU coaches and we also supply for the driver cabin and also we supply for metro rail, air conditioners for metro rail. I do not have much details, if you like you can send me a note and I can ask the concern person to come back to you. Also we supply radiators, radiators which are for the diesel locomotives.

**Yash Agarwal**: This is sustainable going at such kind of growth rate and margins our here? This margin in growth rate will it be sustainable going ahead?

**Nipun Singhal**: If you look at the growth which is really there, if you look at the growth of the OEM and packaged business there is marginal, actually a flat growth for external business. The growth of 30% is basically increase in the supplies for Lloyd brand. It is given there in the intersegment sales. So what you have to do is you have to reduce the intersegment sales on both sides. Now once you reduce the intersegment sale then you will find that there is no growth in the external OEM business. The growth in OEM business is purely for light brand sale.

**Yash Agarwal**: Lastly what would be the tax rate for the whole year, any guidance for the tax rate?

**Anita Kakar Sharma**: Tax rate would be approximately 25%.

**Yash Agarwal**: Thank you.

**Moderator**: Thank you. The next question is from the line of Kaushal Kedia an Individual Investor. Please go ahead.

**Kaushal Kedia**: I would like to congratulate you for the results that you have done in this quarter. I would just want to ask you can you throw some light on the debtors that are standing for this quarter? Would it be possible?

**Nipun Singhal**: I just mentioned to you a little while earlier where there was another question that we are not disclosing and talking about the debtors or the inventory level on a quarterly basis. We will be more looking at comparing the annual figures, because what happens is in season time they go down and in of season they go up, so it is not really true to talk about the figures at any one particular point of time. So as of June 30, 2016 we have just had end of season, so there will be very different figures and the message will be very different. If you talk of off-season time, the debtors will be a little longer. So it is best to talk about debtors and inventory at a single closing date annually to see what is the impact in the whole year.

**Kaushal Kedia**: My second question to you is that you recently came out with a notice saying that you have hired Ernst & Young for bettering investor valuation. Could you throw some light on that?

**Nipun Singhal**: I just mentioned that we have given this mandate to unlock shareholder value to Ernst & Young. They are working on their proposal and I am sure they will come up with three or four options. Once the proposals come in from a tax angle because there is a lot of taxation should also be considered when you are talking about restructuring, so considering the tax angle with the growth in business going forward synergies of different businesses all these things are to be given due consideration. Like for example, consumer product business buys a lot of products from our factories. Now if you segregate these two then there is a tax implication there. Similarly on the prospect of going forward growing LED business and washing machine business so there are a number of factors which are there which have to be deliberated on so once these proposals come in I am sure the management and the board will deliberate on it and eventually we will come back with what we think is the best way ahead.

**Kaushal Kedia**: Thank you very much.

**Moderator**: Thank you. We will take the next question from Yash Matai from Vibrant Securities. Please go ahead.

**Yash Matai:** Good evening Sir. On the margin front, I could see that our consumer durable margins have fallen significantly from 13.7% in the corresponding quarter last year to 7.8% in this quarter. Could you help us understand the reason for that?

**Nipun Singhal**: I do not think 13% something. This is completely wrong.

**Yash Matai:** EBIT was 41.29 Crores for the consumer durable?

**Nipun Singhal**: So that is about similar percentage. EBIT margin for consumer products is almost similar. There is definitely a difference there. It is almost similar and this we have been talking about in the last few calls also that the EBIT margin is going to be remaining almost flat.

**Yash Matai:** I will just check my numbers. I think there is something wrong at my end. Sorry for that.

**Nipun Singhal**: I can give you the numbers. You can cross verify it, but the EBIT margin is almost flat on a corresponding basis.

**Yash Matai:** Second question our employee expenses have also increased significantly this quarter YOY?

**Nipun Singhal**: I will just have a look at that number, but as a percentage what I see is that our employee benefit expenses have gone up by only 0.4%. It was 16.7 Crores and now it is 24.57 Crores. I think looking at the business and the kind of growth that we are expecting in the business really to justify it and moreover if you look at the employee cost versus all the other companies we are far best.

**Yash Matai:** What were the kind of marketing expenses, which we have incurred in this quarter as a percentage of revenues and what is the thought process going forward in terms of that, spend? Could you share that?

**Nipun Singhal**: We have spent about 4.14% of CPD topline. I am not talking about the company topline. Only consumer product business topline we have spent 4.14% in this quarter versus 4.67% in the corresponding quarter. It has marginally gone down in percentage terms because the base has become bigger and going ahead I think it would be at similar levels around 4% levels it will remain.

**Yash Matai:** As you said that among the dealers, distributors, our brand has seen to have generated a pull so do you foresee a falling that a working capital improving earlier than expected or in terms of receivable days or something of that sort or no?

**Nipun Singhal**: I think we have talked about it in the earlier concalls that definitely as brand pull increases it will impact working capital. So that is something, which we will see. So it is a natural byproduct of pull. So that will happen. Now to quantify it I think this is not the right time when we will discuss it once in a year, we will give you the exact breakup of working capital and you can compare the figures on a more reliable basis and on longer-term basis. When you look at a longer term working capital cycle it is much more accurate than just taking it ad hoc in one particular period which is favorable to the company or favorable to the cycle at that time.

**Yash Matai:** Finally, on the LED and washing machines space what is the kind of competition which we are foreseeing in terms of, is it picking up and in terms of margins, I believe are lower than those segments compared to the AC? So what is our company's view in terms of maintaining profitability along with decreasing revenues in those segments, so how will we achieve that?

**Nipun Singhal**: I think in LEDs as our brands get stronger we probably are seeing even with slightly better EBITDA margins with what used to be earlier. So it is not that gap between AC and LED is narrowing. It is not the same that LED works much slower and ACs much higher. So as the brand is getting stronger the dealer base is getting stronger there is no pull, we can see that gap is reducing, number one. Number two, I think when our volume increases your expenses as a percentage gets reduced. So the fixed cost that itself has an impact on the percentage of EBITDA. So the moment volume increases the denominator becomes bigger and that reduces the expenses as a percentage.

**Yash Matai:** So what is our manufacturing strategy for washing machines and LEDs to be entirely imported from China or how does it work?

**Nipun Singhal**: We stopped importing from China in 2012. The reason being that the BCD, the basic custom duty on LED panels is 0%. So it is no longer viable to import CDU from China. So what we do right now is we do assembling of TVs here and BCD all are made locally through OEMs which during the next one-year or so we will do in-house.

**Yash Matai**: So we have the capacity to scale up the business, I mean in terms of assembly and all?

**Nipun Singhal**: Yes assembly capacity is adequate. What is required SMT capacity is very adequate. What is required is to manufacture PCB, which we are currently getting it made in India by third parties.

**Yash Matai**: And we want to do that in house?

**Nipun Singhal**: Yes we would like to do it in house.

**Yash Matai**: Rational will be to.

**Nipun Singhal**: The rational is very clear. There are two things. One is that there is some margin being spent in outsourcing and more important than the margin differential, I think the quality approach is very important because your PCB is critical to quality. There are two parts critical to quality. One is panel and the other is PCB. Panel is not being made in India. All the entire industry is importing it. So PCB is something, which our competitors are making in India. Right now we have outsourced it but when we bring it in-house naturally there will be some profit that he is making that will come back to in-house and the quality that we will have will be much better depending on the third party.

**Yash Matai**: That is how we captive intensive thing so the margin I mean the reward in the sense compared with the capital employed it would not be a negative for the company overall?

**Nipun Singhal**: The capital employed is not very large. The SMT line is about 10 to 15 Crores it is not a very large capital investment.

**Yash Matai**: Are we winning market share in this space LED and washing machine. I assume the growth so how is that space coming up?

**Nipun Singhal**: You can see from our numbers of this quarter 111% growth obviously the industry has not grown by 111%, which means we have taken market share. Similarly washing machines also the industry is not even grown in double digit but we were 33% that means we taken market share. As I said earlier also this quarter and next quarter you will see some very good numbers again in LED and washing machine.

**Yash Matai**: Thanks a lot for your time Sir. Thank you.

**Moderator**: Thank you. We will take the last question from the line of Yash Agarwal from Crest Wealth Management. Please go ahead.

**Yash Agarwal**: My questions have been answered.

**Moderator**: We will take the last question from Balmukund Daga, Individual Investor. Please go ahead.

**Balmukund Daga**: I congratulate management for excellent numbers. Can you please tell us when is the E&Y report expected which will be on the maximizing shareholder value?

**Nipun Singhal**: Actually Mr. Daga, I do not have a definitive timeline on this but I think somewhere in the next three months we should see some proposals coming in and then after that we will be going through some deliberations because we are not going to get one proposals there are going to give three, four options to us. So the next three months I think the proposals will come in then we will deliberate on it. So as soon as we get some clarity we will definitely inform the investors.

**Balmukund Daga**: Secondly, when is our operating cash flow expected to become positive? We have a strong cash outflow on account of the finance cost to the extent of 104 Crores in the full financial year and during the current quarter it has increased from 22.96 Crores to 28.4 Crores?

**Nipun Singhal**: The thing is that when your business is growing at such a pace you are always ploughing back the money into the operations. So I think what we see is if this growth rate continues and I hope it will continue at 40%, 50% CAGR but at some point when this high rate of growth will stop you will start seeing cash coming out of vicious cycle. As long as the growth rate is at 40%, 50% I do not see that you will have positive cash flow because rather you get money to increase your business tend to pull out the money from the system.

**Balmukund Daga**: Last thing regarding employee benefit you mentioned that there is just a marginal increase but what I see is that our net sales have gone up from 710 to 893 Crores and the employee benefit cost have gone up from 16 Crores to 24, so almost 50%, 47% to be very precise?

**Nipun Singhal**: No, no I do think that figure is correct. The figure I have here is. If you take in percentage terms 2.35% has gone to 2.75%. This is what I said earlier. 2.35% has gone to 2.75% and more so if you look at the equivalent company's what is this employee expense in those companies. We are probably the lowest. There are many listed entities you can look at their balance sheet the employee cost is far higher than what is in our balance sheet.

**Balmukund Daga**: Thank you very much Sir. Thanks to all your team.

**Moderator**: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Jitendra Marchino for closing comments.

**Jitendra Marchino**: On behalf of Systematix I thank the management and investors for participating in this call. Have a good day ahead.

**Moderator**: Thank you. Ladies and gentlemen, on behalf of Systematix Shares & Stock Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.