



Lloyd Electric and Engineering Limited

Investors/Analysts Conference Call

May 22, 2008

Moderator: Good morning ladies and gentlemen. I'm Mohana, moderator for this conference. Welcome to the conference call of Lloyds electric and Engineering Limited. We have with us today Mr. B. R. Punj, Chairman and Managing Director of Lloyd Electric and Engineering Limited and Mr. Ishan of Citigate Dewe Rogerson.

At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Ishan.

Ishan: Thank you, Mohana. Good Morning everyone and welcome to the Lloyds Electric and Engineering Limited conference call for the acquisition announcement of Luvata Czech in Prague, Czech Republic. We have with us today Mr. B. R. Punj the Chairman & Managing Director of Lloyds Electric and Engineering Limited and Mr. Arun Paliwal, Vice President. Some of the statements in this conference call may be forward looking statements and statement to that effect is stated in release sent out to you earlier.

We would begin the call with opening remarks from B. R. Punj followed by an interactive question & answer session about the acquisition. I would now like to invite to Mr. B. R .Punj to address the conference and give some perspectives on this acquisition. Over to you Mr. Punj.



B.R Punj: Thank you Ishan. Good morning everyone. I welcome all of you to this conference call. As you are aware we have recently acquired Luvata Czech in Prague in the Czech Republic through Lloyd coil Czech s.r.o., a special purpose vehicle (S.P.V.) for this acquisition. We feel enthusiastic about this acquisition as this acquisition makes us the first and only Indian coil company to have its own coil manufacturing facility in Europe.

To start with, I would like to tell you something about both the companies. Lloyds Electric and Engineering Limited is a well established name and leader in the Indian AC coil Industry. We are OEM to almost all the air conditioning manufactures in India. We provide customised AC coil solutions for institutional clients and also manufacture railway air conditioners as well AC for Delhi Metro Rail Corporation.

Our core strength lies in manufacturing coil for the heating, ventilation, air conditioning Industry, but in recent times we have commenced contract manufacturing of AC's on behalf of original equipment manufactures earlier to whom we were coil suppliers only but now they want complete solutions.

The company posted sales of about Rs. 6.6 billion in year ending FY08 with an EBIDTA of about Rs. 8.827 million. As the audit is currently underway these are un-audited figures.

Luvata Czech is one the top five leading manufacturers of coils serving the heating, ventilation and air conditioning, and refrigeration industry in Europe. Here, Luvata has market share of about 5% in the free coil market i.e. in the non-captive segment. The market size is approximately 600 million Euros. Following the European Commission decision of divestment by Luvata Group of its Czech facility, since August 2007 Luvata Czech has been running as an independent entity.

The company posted revenue of about 30.5 million Euros with an EBIDTA of about 1.8 million Euros for the year ending 31st December 2007. Since both these companies specialize in similar business segment the acquisition would provide several strategic benefits both to Lloyd Electric and Luvata Czech. LEEL would benefit by gaining a global presence as well as having overseas manufacturing facility in a fragmented European coil market. This facility would enable us to attain



attractive position in the European coil market and there by effectively leverage Luvata Czech strong customer base to grow the business further.

Luvata Czech is located in the vicinity of some of the major central European market and has a work force of about 300 employees. The strategic location and experienced manpower will enable us to enhance our distribution network in the European region and provide us with an opportunity will introduce Lloyd Electric product in those markets.

Luvata Czech has an excellent track record with its management and employee's possessing wealth of experience and expertise in their line of business. Going forward this acquisition is likely to lead to significant business synergies, especially in controlling cost, technology absorption and direct access to the European market.

Apart from this we are likely to consider outsourcing some of the components to the manufacturing base in India and there by further enhancing profitability and competitiveness. This would help us, i.e. Lloyd Electrics, to increase its business volume by working closely with the European client and developing products as per their requirement.

We intend to be in touch with you in the future and will communicate and upgrade you about the acquired business synergies and leveraging benefits as may be attained.

Overall we are excited about the prospects for the future. Lloyd Electrics and Luvata are leaders in the coil business manufacturing in India and Europe. Hence, with robust growth and large order books we look forward to the future with confidence and optimism. I will happy discuss any questions and comments you may now have. I once again thank you for joining me on this conference call. Thank you.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing hash key.



Moderator: First question comes from Mr. Anubhav Gupta of KIM ENG Securities.

Anubhav Gupta: What are the net margins the target company is enjoying? And how much growth you foresee in the next two years for the target company?

B.R. Punj: Net margin of this particular company at EBIDTA level is around 8 % and PAT margin is around 2 %. With great synergies between two companies, there is a lot of opportunity to grow the business of the acquired company. In a couple of year's time we expect the growth in revenue to be in the region of around 10 to 12 % and EBIDTA is also expected to attain the same proportion.

Anubhav Gupta: What are the net margins in FY07?

B.R. Punj: Net margin for FY07 was about 2% that at PAT level.

Moderator: Next question comes from Mr. Sulabh Agarwal of Angel Broking.

Sulabh Agarwal: Hello Sir, Just need to know you haven't disclosed the acquisition price till now. So when are you going to disclose it?

B.R. Punj: In the SPA, one of the conditions put down by the seller from whom we acquired this company was that of not disclosing the acquisition price for their internal use. Also there are some regulatory requirements that we should not disclose it.

Sulabh Agarwal: Okay, it won't be disclosed at all?

B.R. Punj: Yes.

Sulabh Agarwal: Want to understand what are kind of synergies would you acquire by acquiring this company?



B.R. Punj: See as far as synergy is concerned as mentioned earlier that they are in the same business as us. So, we could expect one, the material cost to come down because we would now have a better negotiating power with our suppliers of raw materials and thus helping us to bring down the cost of production both in India and overseas. Two, as far as the range is concerned, they are more into their heating and refrigeration i.e. commercial refrigeration coil, which we would like to get into in view of the cold chain which is being developed in India. We are mainly into the air-conditioning business in India. So by getting some of their technology as far as the coils for the cold chain are concerned, this would help us in transfer of some technology as far as the both the companies are concerned and we would have them in the air-conditioning business which we are doing for more than a decade.

Sulabh Agarwal: Okay, what is the kind of expansion plan are you looking for the acquired entity?

B.R. Punj: We are still working out the expansion plans. For 8 to 9 months Luvata Czech hasn't carried out any expansion, as they were to be sold. Hence all their expansion plans were kept on hold, but now we are getting into the nitty gritty of it. They have a huge area of land attached to their factory which we feel that we should construct and put some additional equipment so that at least we can double the production capacity. There is no difficulty as everything is in position; it just needs a shed, some machine and we would be up and running very well.

Sulabh Agarwal: Just need to know what kind of capacity does Luvata have as of now?

B.R. Punj: They have about one third of the capacity which we have.

Sulabh Agarwal: Okay

Arun Paliwal: They are more into the larger coil and there is no standardization available in those coil i.e. complex coils.

Sulabh Agarwal: Okay, so will they manufacture more complex products?



Arun Paliwal: That's right, very well comparable to the situation, like in India when we manufacture railway AC's, we can manufacture maximum 2 to 4 unit in a day but we employ same capacity to manufacture, lets say window AC's, which can churn out more than 1000 units a day. It is difficult to pinpoint as far as capacity is concerned, but on a fairly broader perspective, their facility is almost one third of our size.

Sulabh Agarwal: Okay. The current client that Luvata has, is there any anti poaching clause or something?

B.R. Punj: No, I think, it's pretty well open. I think you know there is free competition.

Sulabh Agarwal: Okay. I missed those margin numbers which were given out initially?

Arun Paliwal: They are having an EBIDTA of around 8% and PAT margin of around 2%.

Sulabh Agarwal: Okay, How do you expect it to go forward?

Arun Paliwal: As our chairman has mentioned, the complementary situation which arises in acquisition i.e. they are into refrigeration and we are not into refrigeration. The type pf products which we manufacture, they do not manufacture. Thus with an additional Capex and also, the part of benefits which we are going to bring it in future, we expect this EBIDTA margin, to grow to a level of around 12% in the near future.

Moderator: Next question comes from Mr. Lucky Gulati of Catalyst Capital.

Lucky Gulati: Going forward, with the raw material prices going up i.e. copper and steel, what does the company expect on margin side for the current financial year?

Arun Paliwal: Mr. Lucky, over here in India as well over there i.e. Czech, raw material pricing pressure is reduced by way of pass through system, which we employ in India. Also the same system is employed over there.



Lucky Gulati: I haven't got through that, can you please come again with that?

Arun Paliwal: Looking on the same customers.

Lucky Gulati: Looking on the customers. Okay, Sir, will you pass on the increase in raw material price to your customers?

Arun Paliwal: Yes, we are able to pass these costs and protect the EBIDTA margin. So that is looked into situation both the companies are positioned as the converter of the metal into a product and the product to the customer as per their design, as per their requirement, that will protect our margin and will pass through all the raw materials costs.

Lucky Gulati: And, one more thing, with this acquisition will the equity be diluted?

Arun Paliwal: Not at all. We have structured the deal in such a fashion that we have not diluted our equity at all

Lucky Gulati: And, can I get what brand they sell their product in Europe, this Luvata Czech?

Arun Paliwal: This particular company belongs to a very large group; they are number one coil manufacturer in Europe rather in the world today which is by the group name called Luvata. Even now they are also selling under the name Luvata, but under the agreement we can continue to sell for another six months. We have got the liberty for using the brand name for the next six months. Till then, we will be able to establish our name simultaneously which we have started working on and then retain all our customers under the Logo Lloyd. In fact, we have currently met major customers in Europe and also met the entire sales team which are not only located in Czech Republic, but also located in France, Russia, UK and other Nordic countries. We have had briefings right from day we acquired and had long and whole day sessions with the sales team in order to know what they are doing and who are the customers, and what are the customer profiles, in order to better understand the synergies which we can bring down the line. We also to that effect have hired E & Y, Gurgaon to



run-us through the post acquisition integration exercise which they will launch in a week and then aggressively look into it. In a months time they will come out with a report; preciously pointing out what are the areas and how much benefit is this going to give us and in what all areas.

Lucky Gulati: Right Sir, you just said that FY07 profit after tax was around 2% for Luvata and going forward in terms of acquisition what sales and margins can we expect deriving from Luvata to Lloyd for FY09 and FY10?

Arun Paliwal: As I mentioned to you in the earlier question, that the opportunity which is available there i.e. complimentary situation, the capex we are planning, the customers profile, the product and the product base is also will increase once we get into it. So, with this we look forward margins to expand to the level of 10 to 12 %

Lucky Gulati: Can you tell me what is the order book of Luvata as on now?

Arun Paliwal: The whole of, assuming the worst case scenario, what we are working on right now, we have just acquired, we have to know them better and even if we assumed that they do the same sales, same revenue in this particular year which cannot be the case, their entire order i.e. almost 80 to 90% of that sales revenue has already been booked with the customers.

Lucky Gulati: When will the financial of the Luvata will be shown in Lloyd results?

Arun Paliwal: We are working it out with them; however, it is difficult for us to say whether in this quarter or next quarter, once it is done we will let you know.

Moderator: Next question comes from Mr. Shalabh Agarwal of Sundaram BNP Paribas

Shalabh Agarwal: Sir, just a couple of questions on the market you said you have 5% share in the overall 600 million Euro market. Is it a very small market because the free market as you said is 600 million but I guess the overall coils business would be bigger business? So, is the most of the capacity is captive over there?



Arun Paliwal: Yes, most of the captive capacity is in free coil market. Captive capacity is around 400 million Euros where as free coil market is around 600 million Euros.

Shalabh Agarwal: And, who would be the biggest company in the free market thing?

Arun Paliwal: The biggest player is again the same Company where the European Commission has asked them to divest, i.e. Luvata. Luvata in the free coil market has got a market share of 27% and next Company to have a market share of 10% is Luvae and Luvata Czech has a market share of around 5 to 6%.

Shalabh Agarwal: Okay, so just to understand this, Luvata is 27% and Luvata Czech, is it a one of the companies in that whole group?

Arun Paliwal: That's right, it was. Just to take you backward for the benefit of everybody, as you are aware we have also been looking into this acquisition aggressively for past two years and Eco Coil of Italy was up for sale which is the second largest coil manufacturer in the world. This was sometime in June, July. Heatcraft was number one. Heatcraft of US and we bid for the same but the bid went very hot and it was sold at almost around 10 EBIDTA which was too aggressive for us and that's why we did not pursue it. So with this combined entity of Eco and Heatcraft which was acquired by Luvata, put together, the whole entity became so big in Europe that it raised competition concern in front of European commission.

Shalabh Agarwal: So, Eco Coil was acquired by Luvata?

Arun Paliwal: That's right.

Shalabh Agarwal: Okay.

Arun Paliwal: The name Heatcraft was then change to Luvata while Eco was then been taken over by Heatcraft and thus the name of the combined entity was change down to Luvata



Shalabh Agarwal: Then, Luvata would then be a US based company because Heatcraft is US, right?

Arun Paliwal: That's right. So, when this entity became so big and they went for the necessary approvals from the European commission, they approved that particular acquisition subject to the conditions that, they had to divest one of their European hub which was Luvata Czech. Luvata Czech was a European hub for them. So under the divestment process which began somewhere in August 2007, European commission appointed a monitoring team which was Deloitte and under its day to day supervision the acquisition was done. Thus till 2007, Luvata Czech was running as an independent entity, Independent of Luvata virtually making their own revenue, spending out of it and earning their own margins.

Shalabh Agarwal: But, still commission asked Luvata to divest into Luvata Czech

Arun Paliwal: Correct. And E & Y was the process runner.

Shalabh Agarwal: Okay. So how much share does the Eco coil have in that market which is now rolling into Luvata?

Arun Paliwal: Virtually, Luvata Czech is around 6% which was contributed by Luvata Czech to Luvata.

Shalabh Agarwal: No, you said, Luvata is around 27%,

Arun Paliwal: So, virtually it means that their (Luvata) market share was around 30 to 33%. So 27% of Luvata and 5 to 6% of Luvata Czech.

Shalabh Agarwal: And Sir, are there you know any pension liabilities in the company which Lloyd has to take over also?



Arun Paliwal: You will be happy to note Sulabh, that there is no pension liability, no unpaid tax liability, and no employee liability. All what is required statutorily to be provided and deducted has been deducted and paid to the statutory authority. There is no unpaid liability which has been taken over. Neither on account of technology, nor on account of employee, and neither on account of social security. It's absolutely zero.

Shalabh Agarwal: And Sir, after taking over Luvata Czech what is the kind of capex that you plan to do in that company this year or next year CY08 or CY09.

Arun Paliwal: As our chairman has already briefed, that there is a huge land, around 10,000 sq meters land available in the factory which we would like to develop and develop our own product to increase the product basket and also bring in some of our products to their facility and thus increase their product range. We expect the capex of around Rs. 20 to 30 crore.

Shalabh Agarwal: Is it this year?

Arun Paliwal: No, this is expected in one or two years.

Shalabh Agarwal: Okay and sir you also mentioned on EBIDTA margin expansion which can happen from 8 to 10 % to 12%, If you could broadly state how would you do that because employee would be the major cost there?

Arun Paliwal: One is the employee cost, as you know in our industry 40% is a non automated component in processing and 60% is the automated process and that 40% is quite high. We would like it to bring down by outsourcing some of the components from India. Two, we would like to increase the product range in complimentary situations. What we do they do not and vice-versa. To bring absolute opportunity of a complimentary situation which we are in today, this should benefit both the companies.



Shalabh Agarwal: Okay, No, Sir the European market, their AC's, I am not sure their business segment is entirely centrally air-conditioned or window AC's or split AC's. There the coil is supplied through vendors or through captive capacity?

Arun Paliwal: It's a mix of both. There, they also sell through lot of OEMs. What we are doing in India is almost the same situation over there. Vendor selling doesn't give you that kind of margin. It is like you are totally dependent, you are adding one more chain to your product and thus adding costs where consumer will give you same margin. If you do with one more chain you will contract your own margin

Shalabh Agarwal: True. And Sir, what would be the total debt on the book right now?

Arun Paliwal: It's totally debt free.

Shalabh Agarwal: Okay. No, on the books of Lloyd electric if we include SPV also?

Arun Paliwal: No. We haven't raised any debt.

Shalabh Agarwal: Okay. So the funding has been done through the cash that was sitting in our books earlier?

Arun Paliwal: It has been, entire deal has been funded through SPV, Special purpose Vehicle of Lloyd electric which has raised certain debt and equities which would be raised on LEEL book.

Shalabh Agarwal: True, so that's what I am saying if we consolidate that also, because finally that SPV is subsidiary of Lloyd electric, then what would be the debt on the books of Lloyd electric?

Arun Paliwal: That would be difficult to say because of regulatory constraints, ultimately that will lead to the conclusion of the deal value for which we have a constraint to answer.

Moderator: Next question comes from Mr. Anil Sarin of Bessemer Venture Partners



Anil Sarin: It looks like those synergies which would take both the companies to great height in time to come. So I guess most of the questions that I wanted to ask have already been asked by different people before me, so let me ask you something about domestic operation. Considering the inflation situation, considering the financing situation, there is an expectation that there would be a slowdown in air conditioner consumption, but that is not borne out by the figures that we see here. I mean all around us we see that while there is slowdown in many other categories, there is very little slowdown in air conditioners. So, what are the reasons for those and how long do you expect this good situation to continue?

Arun Paliwal: Thank you Anil. As far as slowdown in our industry is concerned, we have not seen any signs of it. All the OEMs to whom we are supplying like Samsung, LG, and Bluestar are going full belt ahead. They are not reducing any quantity and just wanting us to do more and more quantities.

Anil Sarin: Okay. Would it mean that you are taking shares from others or the industry itself is expanding in such a pace that you are also full off and everybody else is benefiting?

Arun Paliwal: Yes.

Anil Sarin: My questions are centring on the growth in the industry and what is the growth rate at which the local company, the Indian company can continue to grow and after that there will be some more benefits of selling some component, semi finished components to the Lloyd Czech subsidiary now. So what is the standalone growth rate that you expect and what would be the incremental growth that will result from sending some semi finished component to the Lloyd subsidiary in Czechoslovakia

Arun Paliwal: Anil, Lloyd electric here is growing at the rate of 30% and if we add on the extra business which we will be sort of doing on behalf of the Lloyd Czech. Certain components that we would outsource which are heavy on the manpower and cost and easy for us to do in India, will



further increase it by 5% to 7% more. So 35% to 37% is a reasonable assumption to make. This is what we think.

Anil Sarin: And, I have a follow on question on the same subject, would the operating margins improve because of the better margins on the exports realizations.

Arun Paliwal: Anil, lets say we take standalone basis as to what Luvata Czech has done in CY07 and we assume that there is no growth which is the worst case scenario. There will be a little contraction in the margins right now as their EBIDTA level is around 8.8% and our margin is around hovering around close to 14%. There will be a little contraction in the worst case scenario, that means instead of consolidated it will come down, instead of 14% it will come down to 13 to 13.5% at EBIDTA level. That is a worst case scenario. So right now, E & Y has been assigned the task to do the post acquisition integration process. The way we expect them to come out with certain areas where we can improve certainly apart from what is apparent like export of semi finished goods or outsourcing some other components even the apparent things. What we would like them to come out with some kind of areas where we might not even think of which is quite possible in such kind of exercise that comes out with. So it is very difficult to say what would be the level of improvement which certainly will be there. At this state it is difficult for us to quantify that. May be six months down the line we may be in better position to say so.

Anil Sarin: Okay. Thank you. I have one more follow on question, considering that the Czech operation is more into custom built coils, that meaning, market for standard coil is wide open with your cost economic being quite low would you be able to take share from the existing suppliers of standard coils who are currently servicing the EU opportunity

Arun Paliwal: Very rightly asked Anil. While we had our sales meet, we could identify certain customers who are taking customized coils from Luvata Czech, but in their own demand, let's say for window AC or for split AC, from some other source. So we don't have to look at out for customers. Customer are still there because Luvata Czech is already supplying their own customized solution to them and because of the leverage of the cost, labour cost we have in India between India and Luvata Czech this certainly is an excellent opportunity. One to cater to the same customer who



Luvata Czech is supplying their own customized coil but are not able to supply the windows split AC or the coils for window and split AC

Anil Sarin: Okay. I got that. One last question from my side, would you be opening a western front, I mean you are approaching Europe from Eastern side; does it make sense to set up some warehouses in Notre Dame and try to sell products from the western side now?

B.R. Punj: Anil, we would like to consider this as we go along and discuss with our Czech partners and the Czech management team there which is the best way to minimize the logistics of supplying and selling the products in the European market

Arun Paliwal: Infact Anil, two big markets, lets say Russia and Germany has not been tapped by Luvata Czech currently. Like Germany is known to give you the price for quality which has not been tapped by Luvata and it is hardly 200 kilometres away from our Czech facility. That's a big market which we are trying to tap on now. We would like to concentrate right in the beginning

Moderator: Next question comes from Mr. Manish Balwani of Dawnay Day

Manish Balwani: Hello, yes Sir, my questions would relate to the domestic markets. If you could give a revenue breakup of supply to OEM, institutional sales and contract manufacturing on AC in the domestic markets, Lloyds electrical.

Arun Paliwal: Institutional sale apart from railway is not there at all. We started contract manufacturing some where in 2005. We started with a sale of 90 crore and that has grown to 162 crore this year. That is the fastest growing segment with us.

Manish Balwani: Okay and what's the share of contract manufacturing of AC and how do you see this segment going forward.

Arun Paliwal: Going forward there is a great opportunity as far as the top line is concerned. It will give us lot of top line. It gives us two benefits. One, we are able to retain our own customers in many



case they were earlier sourcing coil from us and the contract manufacturing done by somebody else. That virtually means they were paying coil margin to us and also paying assembling margin to somebody else. What we are trying to do now with them that we are able to maintain our own coil margin and additional to that assembly margin we are getting.

Manish Balwani: Okay, and what's the EBIDTA margin increase basically, so what's the increase in EBIDTA margin.

Arun Paliwal: Overall if you see the value added is seen less. Let's say in contract manufacturing overall we make a 8 to 9% margin. This is after taking into account of 12% to 13% coil margin because the value also left in contract manufacturing the AC may be four time five time higher that the coil. So ultimately the margin level has to reduce percentage wise.

Manish Balwani: Okay and what's the share of revenues of contract manufacturing of AC's?

Arun Paliwal: Let's say we did revenue of Rs. 668 crore and contract manufacturing is Rs. 262 crore

Manish Balwani: Okay. And Sir on the .Luvata front what's the outsourcing of manufacturing which is in plan which will be given to India basically.

Arun Paliwal: That is what we are trying to workout right now. It is difficult to say right now which component we are going to outsource? What quantity? This job has been assigned to E & Y who would give us a blue print as to how to go about it.

Manish Balwani: And Sir, does Lloyd Electric have any exports currently. Does the company have any exports being done of coils?

Arun Paliwal: Very Minimal. European customers are excellent customers but we have done very minimal. The reason for this acquisition was also this as it gone for direct exports, it would have taken us with the particular customer to develop that customer the cycle is around 3 to 4 years before



you reach a critical level of sales with any particular customer and we got the existing customer with which we can expand right from day one.

Moderator: Next question comes from Abhishek Shah from Anew Capital.

Abhishek Shah: My questions are about deal itself. I fully understand that you may not be answering all of them. Is this a full share purchase deal and you will be taking all of the company.

Arun Paliwal: Yes, It's a 100 % ownership deal.

Abhishek Shah: Okay. And it will be full cash free or will it be a part cash part share, will you be in a position to answer that.

Arun Paliwal: Yeah, It's all cash deal and no stocks

Abhishek Shah: Okay, great. And Debt is entirely India Debts? Those debts you have taken that the SPV has taken

Arun Paliwal: That we will not be able to answer it

Abhishek Shah: Fair enough. And I am a bit confused that the deal is already been confirmed. It's already been done right?

Arun Paliwal: That right

Abhishek Shah: Okay. Are there any non complete requirements or non technology transfer requirements, any thing of that kind?

Arun Paliwal: No.

Moderator: Next question comes from Mr. Vikram Mago of J M Financial



Vikram Mago: Just want to understand from Luvata's point of view we have operations in many European countries. So why did they choose Czech from all other countries to sell that to you

Arun Paliwal: It was not their choice. It was told by European commission to Luvata to divest this particular plant.

Vikram Mago: I know but what is the logic of that?

Arun Paliwal: Because of the reason that European commission, you know with Eco and Heatcraft acquisition based under Luvata making them the number one player Europe.

Vikram Mago: Okay.

Arun Paliwal: Before clearing the deal, European commission was concerned of the competition and also they wanted to protect the customers. They had told Luvata to bring out a situation in Europe where the customers in Europe must have an alternate manufacturer.

Vikram Mago: Okay, but my only point is they could have asked to sell the Germany subsidiary or the French subsidiary or the Finnish subsidiary or the Austrian or the Italian?

Arun Paliwal: It was a Finnish subsidiary

Vikram Mago: I just want to understand why Czech from all the 6 or 7 European countries they have subsidiaries then?

Arun Paliwal: This was primarily the plant from where the Luvata was catering to other European customers. It was identified by the European commission and took a commitment from Luvata to divest this particular plant which was their hub to cater to the European customer market. They moved their particular plant from France to take advantage of the low cost labour.



Vikram Mago: Okay. And is your plan in Prague proper or its outside or?

Arun Paliwal: It's just 12 kilometres away from Prague. It takes only 20 minutes

Moderator: Next question comes from Mr. Tejas Seth from Darashaw Broking and Investment Banking

Tejas Seth: Since the Luvata group has not exited the whole business, can the customers of Luvata Czech go back to the group.

Arun Paliwal: That's what European commission wanted. That's what to have a free choice. They are the big daddy Luvata. We have to admit it and we have to fiercely compete with them and retain our own customers.

Tejas Seth: Okay, Luvata group may steal away some of customers of Luvata Czech.

Arun Paliwal: But Tejas at the same time, we strongly feel about the cost advantage which we have which will play a key role.

Tejas Seth: Okay and I just wanted to understand your domestic expansion plans. You are planning a plant in Lonavala if I am not wrong. What is the status of the same?

Arun Paliwal: That was regarding JNPT.

Tejas Seth: Yes, exactly

Arun Paliwal: Right, his particular air conditioning industry is growing in India, with a CAGR of around 25 to 26 % and in order to catch that growth, our group has already made a blue print in next couple of years and on an average we will be investing around Rs. 20 to 30 crore every year out of the accrual, debt. Also, in next 2 to 3 years every year we will be investing around Rs. 20 to 30 crore



either in terms of new facility or in terms of upgrading our own facility to bring a new product which will give us better product mix and better margin or to create more facility in the existing facility.

Tejas Seth: So, It will be fair to assume that 30 crore would be our capex year on year for may be over next 3 years.

Arun Paliwal: Correct, whether JNPT, whether any other location. So we are concentrated only in north and we would like to expand in the other geography in India as well.

Tejas Seth: Okay, Sir any reason for your dip in margins EBIDTA margins in your last quarter. Is it because of the raw material cost hike?

Arun Paliwal: No. That was not the reason. Basically we expected to book more on railway and it is the difficult area where even if you have the order, the execution happens only at the end when the customer wants.

Tejas Seth: Sir, just last question. This company in a way is not as may be as Lloyd as on today. So, are you planning any more acquisition is group looking for any more acquisition or you will be more focusing on integrating the one acquired.

Arun Paliwal: We are looking into the possibilities. Our appetite is good and that can give us good growth if we follow on this particular strategy.

Moderator: Next question comes from Mr. Manav Vijay of Edelweiss Capital

Manav Vijay: First of all as you mentioned that the capacity in Czech is roughly one third of the existing capacity what we have in India. What is the capacity utilization that we had over there?

Arun Paliwal: There, we have been told that they are working all three shifts. They are not into the standardized manufacturing of coils. They are into the customized coil and that too large coil. It is very difficult to calculate capacity utilisation in India also; it is very difficult for us to do the



mathematical calculation by the capacity, by the number of coils to make and come out with the capacity utilization. In our kind of business itself mathematical calculation is not possible.

Manav Vijay: Okay, fair enough. Second question is that we have roughly 300 employees in Czech and as the employee cost is quite high. Is possible to quantify in terms of exact number, how much was the employee cost as a percentage of total sales?

Arun Paliwal: Roughly around 28 to 30 % production cost, not the sales.

Manav Vijay: I was talking the employee cost by sales.

Arun Paliwal: I will have to check the numbers, but the employee cost to the production cost is roughly around 28 %.

Manav Vijay: Okay, fair enough. Sir, and you also mentioned that roughly 40% of the production is non automated which has a probability of getting outsourced to India. So, how soon can we expect this kind of products to come over to India?

Arun Paliwal: As I mentioned earlier, that E & Y has been engaged for this particular purpose and may be in a month's time we should know what areas then which is to be taken and what time bound. What major steps will bring what kind of benefits? We have an apparent idea, but we would like to approach this particular situation in a much more professional manner. That's why we have taken and engaged a professional agency for the same.

Manav Vijay: Okay, fair enough and Sir, what is the current order book from railways.

Arun Paliwal: It is a tender based business. Say around Rs. 60 to 70 crore is the pending order with us.



Manav Vijay: Okay and I would understand that it is not possible for you to disclose the exact price of the acquisition, but roughly speaking at what kind of EV to EBIDTA level multiple the Company would be comfortable for an acquisition.

Arun Paliwal: Right, Manav, we can only reply to your question in a manner in that, as against Eco. Luvata acquired ECO at 10 EBIDTA. Compared to that it was at a very attractive price for us.

Manav Vijay: Okay, fair enough.

Arun Paliwal: We have not paid through the nose.

Manav Vijay: Okay, that sounds good. One more question, there is say around Rs. 50 lacs warrants there outstanding in the price of Rs. 225. How soon can we expect those warrants to get converted into shares?

Arun Paliwal: Look at basically which we are depended upon capex requirement.

Arun Paliwal: Promoter is willing to bring in any time when the company required in.

Manav Vijay: Okay and warrants do carry a deadline and let say before the deadline company doesn't require the cash. So, can we expect the warrants to get expired?

Arun Paliwal: Eighteen months is the deadline. In that or at the end of eighteen months, it has to happen.

Manav Vijay: Okay, so warrants will get converted.

Arun Paliwal: Will get converted.

Moderator: Next question comes from Mr. Jigar Shah from KIM ENG Securities.



Jigar Shah: Good Morning Mr. Punj, Mr. Arun Paliwal, congratulations on your deal. I have just one question now after so many questions have been asked. What would be the impact on the ROE for the consolidated company in 2009-2010? I know its little early to comment, but what is your feel? How do you see the ROE getting impacted in 2008-9 and 2009-10?

Arun Paliwal: As I mentioned there is no equity dilution at the LEEL level, Lloyd Electric Level. We expect ROE impact to be positive.

Moderator: Next question comes from Mr. Vinay Paharia of Lotus India AMC.

Vinay Paharia: Just wanted to know what sought of gross margin are there at Luvata.

Arun Paliwal: It is around 8%. 8:8% EBIDTA Level.

Vinay Paharia: No, the EBIDTA you said is about 6.2%. I am saying sales minus cost of goods sold. That's RMC. I wanted the figures for sales minus raw material cost. Purely, the margin post conversion.

Arun Paliwal: That we have to work out. We will get back to you on that

Vinay Paharia: Okay, Sir what is the current capacity at Lloyd Electrical and Engineering in terms of coils and AC.

B.R. Punj: We have 1.4 million coil making capacity and 0.4 million AC making capacity.

Vinay Paharia: Okay and you are expanding the capacity by setting up a capacity at JNPT as well. At the JNPT capacity you have also a tie-up or JV with Hanyung.

Arun Paliwal: That's right.



Vinay Paharia: So, simultaneously that refrigeration coil capacity would also start. And when is the commercial production expected to start from this expansion?

Arun Paliwal: There is some land issues over there which is being sorted out. We expect some delay.

Vinay Paharia: Okay and what sought of sales was there in RMPU's in fiscal FY08.

Arun Paliwal: It is around Rs. 61 crore.

Vinay Paharia: And what were the total coil sales?

Arun Paliwal: Around Rs. 303 crore on a standalone point basis. That is we sold coil along with sheet metal as a coil.

Moderator: Next question comes from Mr. Lloyd Cardoza of Future capital.

Lloyd Cardoza: Just wanted the split of Rs. 668 crore, just taking the last question ahead, you said RMPUs were Rs. 61 crore, and Coils sales were Rs. 303 crore. How much was the cooling units to metro?

Arun Paliwal: Some Rs. 32 crore.

Lloyd Cardoza: Rs. 32 crore, and how much was sheet metal?

Arun Paliwal: No, sheet metal is all included in that

Lloyd Cardoza: In the coil. Okay, and how much was the inter segment, coil to air-condition assemble?

Arun Paliwal: The contract manufacturing we did was Rs. 262 crore which include the coil phase.



Lloyd Cardoza: Would we know how much was the inter sale?

Arun Paliwal: In the contract manufacturing we can roughly say out of 260 crore, 30% is the coil cost.

Lloyd Cardoza: And, just a single question on your acquisition. Won't the clients i.e. Luvata clients as in Czech in subsidiary, won't you loose all the clients?

Arun Paliwal: Look, we have to fiercely compete with number one player in the world which is Luvata, but at the same time we have cost competitiveness, you don't expect to loose them.

Lloyd Cardoza: But, there would be some testing which one has to approve the products and I am sure you will loose the name Luvata and you will have to rename the subsidiary. The brand name would be lost isn't it?

Arun Paliwal: No, brand name, we have the liberty to use the Luvata for the next six months which is big enough a period for us to establish a Lloyd name for which we have started the exercise, we have already met the major customer who contribute to 40% of the sale of Luvata. We have already met those customers, customer communication has gone. Lloyd logo has gone with the communication. We have started doing that exercise. In any case we have six months time and we can do it in two months, one month's time, it's a strategic decision which we will have to take.

Lloyd Cardoza: And what's been your experience in India, how much time it takes to get your products approved from a particular customer.

Arun Paliwal: No, It's an ongoing process everywhere. That's the reason why we have gone through acquisition route, rather than the direct export route. This is the story in India also, lets say if a new player wants to come and try to do some business with Samsung, first he will have to take the product, then he has to do the drill and the product has to be approved, thereafter he needs to get



small order, which is the test order, then may be bigger order, may be bigger order. So, whole process takes around 3 to 4 years time.

Lloyd Cardoza: And how many coils sales were there in number, this FY08.

Arun Paliwal: That's difficult, because we do all kind of coils.

Lloyd Cardoza: Okay, could you just tell us what were the margins in different, RMPU in coil. Could you just indicate some number?

Arun Paliwal: We can give you little guidance on it. Coil we roughly do around 12 to 13% margin at the EBIDTA level. RMPU will do around 20 to 25%. Delhi Metro we do around 18 to 20% and contract manufacturing we do around 8 to 9% depending on the customer.

Lloyd Cardoza: Okay and how is your RMPU business growing?

Arun Paliwal: It is there all over in place how our rail minister Lalu Prasad Yadav is taking it on. He has got good vision for the railways. He is proving, he is looking very positively for the customers comfort and infact two new coach manufacturing factories in India. earlier there was one in Kaputala and one in Chennai. Now Indian Railways is getting two new factories because of the growth which we are expecting in this particular industry.

Lloyd Cardoza: What is the visibility from that particular segment as and when do we get orders. How is the visibility for FY09 RMP?

Arun Paliwal: No, it is always difficult, it's all tender based. No body can pin point but on a ballpark figure basis we they say what we have been seen for last two years it's been growing order size by 20-25% year on year basis.

Lloyd Cardoza: So, you would maintain the same number for the next year?



Arun Paliwal: The order will come. It is up to them to float the order and get the things done.

Lloyd Cardoza: And you JV with Hanyung what will be the capacity for refrigeration?

Arun Paliwal: The capacity would be around 2 million coils, refrigeration coil.

Lloyd Cardoza: And who is manufacturing refrigeration coils in India today?

Arun Paliwal: None, nobody. It is all imported. Let say LG and Samsung source from Hanyung on this

Lloyd Cardoza: Okay, Sir and any pressure on margins because of the way commodities are behaving?

Arun Paliwal: No, it is all pass through systems which we are employed

Lloyd Cardoza: There is no risk on inventory, inventory valuation, nothing?

Arun Paliwal: Not at all which you could see for last couple of years our margins have been growing because we are constantly improving our product mix to protect our margin apart from positive systems which we employed for more than a decade which is well accepted with our customers

Lloyd Cardoza: And are you facing any competition from the captive or any announcements from these majors to ramp up the captive?

Arun Paliwal: We have been adding on capacity. You have to understand one thing like today Lloyd because of our more than a decade experience in coil we have acquired the capabilities and capacity to manufacture more than 400 types of coil whereas captive you cannot put up the facility for the entire range of the coil. So, that gives us a lot of leverage. For any other type of coil for



which they do not have the captive capacity, they have to come to us or the order which they can't meet out of their captive capacity; they have to come to us.

Lloyd Cardoza: Because, when I see your ROE, they are pretty lucrative and if the way the industry is growing, I just saw your capacity. I wanted to appreciate what because it is not a very technology based product, so, if the ROE are expanding why would captive guys not doing it? I just want to understand from that perspective.

Arun Paliwal: How to say that this is not a technology product, you have to come and watch how we manufacture in the factory. We would like to invite you to come to our factory and to see whether it's a technology driven product or not.

Moderator: Our last question comes from Mr. Sharad Tripathi of B & K Securities

Sharad Tripathi: What's the average realization of the coils in European market how are target companies stands as compared to the industry assets?

Arun Paliwal: You know, we are still looking into all those areas and it is too early for us to comment on it. What you have asked is a little simple question with which we our selves are throwing down. Ever since we have acquired the company may be 10 to 15 days back, we may have to put E & Y also into this particular job. We will identify all these areas under question.

Sharad Tripathi: Okay and is there any plan to start contract manufacturing there also, since we are already manufacturing coils?

Arun Paliwal: There is a possibility for contract manufacturing, but what we would like to do, we would like to export in a semi finished manner from here because we have got cost advantage and they will finish it and probably cater to the customers there.

Sharad Tripathi: Okay, and what's the working capital requirement as a percentage of sales?



Arun Paliwal: It is almost the same what we have over years

Sharad Tripathi: Okay, around 30 to 32%

Arun Paliwal: That's right.

Sharad Tripathi: And Sir, this company is generating positive capital at the operational level?

Arun Paliwal: Correct. It is cash for this institution.

Moderator: Thank you Sir, There are no further question. I now handover the floor to Mr. B.R. Punj for closing comments.

B.R. Punj: Thank you very much for being patient and listening to us and if you have any other questions we will be only to happy to answer them. Write to us or talk to us we will definitely give whatever best answer we can. Thank you very much.

Arun Paliwal: Thank you all.

Moderator: Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

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