



“MIRC Electronics Earnings Conference Call”

November 11, 2011



**MODERATORS: MR. G. SUNDAR – CEO, MIRC ELECTRONICS
MR. SAMEER DESHMUKH – TATA SECURITIES LIMITED.**



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Moderator

Ladies and gentlemen good day and welcome to the MIRC Electronics Q2 FY12 results conference call hosted by Tata Securities Limited. As a remainder for the duration of this conference all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sameer Deshmukh. Thank you and over to you sir.

Sameer Deshmukh

Thank you. On behalf of Tata Securities I welcome you all to the conference call of MIRC Electronics post the Q2 FY12 numbers. We have with us the chief executive officer of the company, Mr. Sundar. I hand over the floor now to Mr. Sundar to make us opening remarks post which we could go ahead with the Q&A session. Over to you sir.

G. Sundar

Good afternoon. Welcome to everybody. We have had a tough quarter for Q2. But however we have been able to sustain the volumes. We had a marginal growth of 6% in turnover, but the bottom line has been impacted. It has primarily been impacted by the increase in the dollar rate. We have had a prudent policy of covering our foreign exchange but however we had to fully exhaust the forward contracts as the rates went up. On the 30th September, rate being high and valuation of inventory based on that has impacted the bottom line. Out of the 3 growth engines that we identified for ourselves, the flat panel business is one business that is doing pretty well for us. Color television business is also quite stable. AC as I had explained in the last quarter, the competition has been fiercely dropping prices, despite no drop in the input cost we have decided to hold on to a price lines and therefore the AC business has taken a marginal fall. The area of concern has been in the area of mobile where we are yet to show an increase. We hopefully would expect to arrest the fall in Q3 and going forward in Q4, we expect to improve upon the mobile business. The impact of all this has been vis-à-vis original plan, where we wanted to invest quite heavily in the brand that has taken a little beating, as our profitability itself eroded sharply. But we are on track and we expect to breakeven and going forward in Q4 enhance our brand presence in the market. With that I would throw open the floor for question from any of you.

Moderator

Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Amit Purohit from Daulat Capital, please go ahead.

Amit Purohit

Thank you for the opportunity. Just wanted to check with you what would be our volume growth for the quarter like you said 6% overall growth you said volume was ..?

G. Sundar

It is actually a composite of products. If you look at the color television we grew by 9%. LCD we grew by 134%. The other product categories DVD & ACs, DVD degrew by 44%, AC by 28%, washing machine grew by 39% and microwave grew by 36%.



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Amit Purohit

Okay and sir just your view on the market in consumer durables. One on the overall demand outlook and specifically for category like AC wherein you said that competitors are taking price reductions. So as I understand, are you referring to all the top end competitors or you are into lot of regional players?

G. Sundar

Well let me respond to the first question. Overall if you look at the market, the market is still healthy it has not gone into tailspin you don't see much of a fall. The flat panel business is still growing healthily. The appliance sector is also growing healthily. DVD as a product category is bound to go down because the mode of viewing content has undergone a change. So overall the market is not as bad as one would have expected it to be. Going forward it's difficult to say. With the inflation catching on high interest rates and lower disposable income in the hands of the consumer. Of late we do read that even in the rural area, people have been impacted by increase in cost, interests and so on and so forth. But at this point in time, we are not visualizing much of that. Responding to your question specifically in respect to Air Conditioner market, the air conditioner market last year did take a beating primarily because of inclement weather. Now that the weather has been stable, I would say and therefore the market is now coming back to normalcy. Going forward you could have two scenarios. One, by the law of averages, possibly next year summer could be severe. In which case the market would boom. My reading and understanding of the air conditioner market is, that the air conditioning market is primarily influenced purely by the weather & more so the heat in the night. The night temperature decides very clearly the market direction as far as air conditioners are concerned. But having said that I somehow have a feeling that the industry is also not fully inelastic to price movements. And therefore the rate of growth would be dependant upon the pricing of the product. Now if you look at the costing of the air conditioners, copper though it has come down from its highest levels, compressor prices have been moving up. So we would see a price increase as far as air conditioner is concerned. And therefore one could not probably foresee a very aggressive growth as far as air conditioners as an industry is concerned. However, there would be growth going forward and I believe that probably the summer could only be worst which would be good for the industry.

Amit Purohit

Okay. So what would be the price reduction that overall industry would have taken to clean up their inventory? And has the inventory at an industry level and at our level now at comfortable level?

G. Sundar

Still people are having inventories in hand and the kind of reduction that one has taken is anywhere between 15 to 30%. To my mind people have taken losses in terms of holding their inventory.

Amit Purohit

That includes even the number 1 player and also the lowest player, across you are saying. 15 – 35%.

G. Sundar

Yes I would say so.



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- Amit Purohit** Okay lastly on washing machine, this segment has not been impacted for you. And in the industry you would have grown much ahead of the industry right?
- G. Sundar** Well yes. For us on a quarter to quarter basis, washing machine have grown by 46% and this industry as you rightly said has not been impacted by a slow down. However it has been impacted by cost increase primarily with the petrol prices moving up and therefore petroleum products and plastic, steel and rubber so on and so forth. This area is one area where we have been able to grow healthily and we have been able to maintain our margins.
- Amit Purohit** And last on the price increase are we looking at any price increase in any segment which has been growing strong like washing machine. A lot of players or competitions have taken price increases.
- G. Sundar** Exactly, actually one of the reasons why we have been impacted severely in terms of bottom line is not so much so in terms of inability to pass on the cost increase to the consumer but actually the timing is what made the difference. The dollar accelerated at a very rapid pace in the month of September and by that time most of the tie ups in terms of price roll outs and tie ups with the trade partners had already been done. In the middle of the season for us to take a price increase is a very difficult proposition. Because that not only disturbs the whole cycle but we also do not know what will happen with your sales volumes. The pace at which the dollar appreciated left us with no options but to take a price increase during the season. We did this in the middle of the season. But that was not fully sufficient to absorb the complete cost increase. So now what we are contemplating is post season we take price increases which would now to a large extent offset the cost increase that have been incurred by virtue of the dollar appreciation. Having said that it is still unclear, going forward what would happen if dollar appreciates beyond 50 then its again a question in terms of how much we will be able to increase prices and pass on to the consumer, and what kind of volume target we will be able to maintain beyond that.
- Amit Purohit** And sir a final one. What is the price increase you took on weighted average on the entire basket and what is likely expected or we plan to take?
- G. Sundar** About 3 – 5%.
- Amit Purohit** That is we have already taken?
- G. Sundar** Yes we have already taken.
- Amit Purohit** And what is the likely price increase going forward which we would take?
- G. Sundar** Another 3 – 5%. Typically with new model introductions price and price increases are effected.
- Amit Purohit** Sure, so you will see almost all categories you will see a new model introduction across here.
- G. Sundar** Right.



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- Amit Purohit** Thanks a lot sir.
- Moderator** Thank you. We have the next question from the line of Yuti Dalal from Corporate Database, please go ahead.
- Yuti Dalal** Good afternoon sir. I just wanted to get some numbers in terms of volume I think what you said was volume growth. So if you can give value growth as well for all the categories?
- G. Sundar** Yeah value growth for Q2 in terms of television is 10%.
- Yuti Dalal** That C TV or both together?
- G. Sundar** This is C TV alone, color television that is CRT Television, LCD is 91%, DVD (-50%), AC (-21%), Washing machine (+46%), and microwave growth of 40%.
- Yuti Dalal** Okay and now what is the total percentage of total contribution now of the categories?
- G. Sundar** Pardon me?
- Yuti Dalal** What is the contribution of each category to total revenues now?
- G. Sundar** Contribution is C TV is 41%, LCD is 10.5%, DVD 6%, AC 8%, Washing machine 7% and microwave 3%.
- Yuti Dalal** Okay last question I had which is from the forex which we talked about the dollar did impact you. Could you quantify that?
- G. Sundar** In terms of?
- Yuti Dalal** What was the actual impact at operating level of forex, so was it just M-to-M or was it.
- G. Sundar** The total impact vis-à-vis what we had originally anticipated & booked to what we have to report in terms of 30th Sept rate (48.97) is in the range of 9 crores. Out of which 6 crores pertains to mark-to-market and 3 crores payout loss.
- Yuti Dalal** Okay that's all from my side. Thank you.
- Moderator** Thank you. We have the next question from the line of Rupen Masalia from RN associates, please go ahead.
- Rupen Masalia** Good afternoon sir.
- G. Sundar** Good afternoon.



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- Rupen Masalia** Yeah. See few questions. One is please strategize for reviving mobile communication device business going forward. If you can throw some light on here how you all are planning to revive it up.
- G. Sundar** We are coming out with new range of mobile phones which are targeting at the value segments. We are also correcting our distribution network which is currently chocked with some non-moving inventory. And once we clean up that distribution network then we can start and put in a new range of mobile phones & take that volumes up.
- Rupen Masalia** Okay so probably from Q4 onwards, you are expecting positive growth.
- G. Sundar** Yes.
- Rupen Masalia** Secondly sir this brand building exercise due to losses and currency headwinds, you had to decrease it. So for the year as whole would you throw some light on how much you all are going to spend on that?
- G. Sundar** For a year as a whole we should be able to come back to last year's level in terms of brand spend. It will anywhere between 80 and 100 crores.
- Rupen Masalia** Okay looking at an overall current scenario may be local inflation, interest rate and may be global headwinds adverse currency movements, are you hopeful of wipeout H1 losses in H2.
- G. Sundar** Yes. We are quite confident that we should be able to end this year in profits.
- Rupen Masalia** And so can we expect a continuation of your dividend of payout policy for FY12?
- G. Sundar** Yeah policy will be maintained.
- Rupen Masalia** Okay that's it from side. And all the best for future sir. Thank you.
- G. Sundar** Just to clarify the rates would depend upon the actual quantum of profits.
- Rupen Masalia** Okay fair enough. That's it from my side.
- Moderator** Thank you. We have a follow up question from the line of Amit Purohit from Daulat Capital, please go ahead.
- Amit Purohit** Sir thanks for the opportunity again. One question is on the competitive scenario, how are the competitors taking up this raw material price increase. Have they also taken price increases ahead of us or where does the competition, what are they doing?
- G. Sundar** Well, if you look at it, the market is divided based on products. In case of flat panels, competition is not taking any increase there. But everybody is aggressively pushing as panel



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prices are coming down but that is because primarily panel makers are saddled with lot of Inventory. So actually there it is bleeding on the other side but on the television business per se, it is profitable. In terms of Air conditioners as well, people are liquidating stocks so no body is taking any price increases. However, in other products categories like appliances washing machines, and microwave people have taken price increases. In terms of color television people have taken marginal price increases. So it's a mixed bag. In terms of mobile people have taken price increases. However, they have not been able to pass on the source to the consumer. So it's complete mixed bag in terms of price increase by the competitor.

Amit Purohit Sir in washing machine and microwave what would be the industry level price increase that would have taken because these are the 2 significantly large price increases.

G. Sundar It would be in line with what we have also done, that is 3 – 5% is the kind of price increase.

Amit Purohit Okay but I read some articles where LG had taken a price increase of 5 – 6% just before the festive season is that true?

G. Sundar That is true. But you know they do have a lot of money that is rolled out in the form of trade discount, so when I say a 3- 5% increase that would be net of what they would have adjusted in this discount.

Amit Purohit Okay so when we take 3 – 5% price increase it is a complete price increase which takes it or there is something less after that. There is a discount in it?

G. Sundar This price increase I am referring to, the net increase that comes to the company's bottom-line.

Amit Purohit to 3-5%. Okay fair enough. Thank you sir.

Moderator Thank you.

Prateik Hello?

G. Sundar Yes.

Prateik Hi this is Prateik here. Sir could you comment on the contribution of new products to sales?

G. Sundar Pardon me?

Prateik Contribution of new products to overall sales?

G. Sundar New products means are you referring to new model introduction?

Prateik Yes.



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- G. Sundar** Well around season time we have new products that is launched across products categories to give you a broad number anywhere between 15 – 18% of the sales that would emanate from new product introductions.
- Prateik** Also could you comment, throw some light on growth in metros versus tier 1, tier 2 cities. Have you seen some slowdown in Tier-1, Tier-2 cities?
- G. Sundar** Not really. It is I think at this point in time, microwave as a product category itself is in a very nascent state. It's to a large extent from a user point of view it is used as a heating appliance. Whereas it will transform itself and blossom beautifully into a cooking appliance. Second availability of power is an overall constraint in terms of growth of this particular product. With the advent of induction cookers, people are now looking at alternate means of cooking and heating and therefore this product category is gaining acceptance.
- Prateik** Okay sir and my last question is due to this price increase, rate hike taken by RBI, are you saying that consumers are postponing their purchases?
- G. Sundar** Well, to some extent that is bound to happen because this industry is not inelastic to price but I don't see much of that impacting because we don't see a slowdown in the industry. In most product categories there has been a growth. And even in CRT there has been a marginal degrowth and that I would assume it is because of its transformation from a CRT television to flat panel television.
- Prateik** Okay sir thanks a lot and all the best.
- Moderator** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Sameer Deshmukh for closing comments.
- Sameer Deshmukh** Thanks. On behalf of Tata Securities I thank Mr. Sundar and all the participants for this call. Thanks a lot sir.
- G. Sundar** Thank you very much.
- Moderator** Thank you. On behalf of Tata Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.