

MIRC Electronics

Q1 FY12 EARNINGS CONFERENCE CALL

Moderator

Ladies and gentlemen good day and welcome to the MIRC Electronics Q1FY12 earnings conference call hosted by Tata Securities Limited. As a reminder, for the duration of this conference, all participants' 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. Mr. Deshmukh, over to you sir.

Sameer Deshmukh

On behalf of Tata Securities I welcome you all to the conference call of MIRC Electronics post the first quarter numbers and also sincerely regret the inconvenience caused due to the cancellation of the call yesterday.

We have with us Mr. Sundar, the Chief Executive Officer of the company. I now hand over the floor to Mr. Sundar to make any opening remarks and then we can proceed to the Q&A session. Over to you, sir.

G. Sundar

Good afternoon to all. Let me give a quick snapshot to what happened in Q1. As I had indicated in the last quarter, the second half of the AC season was not so good, primarily due to the inclement weather and the air conditioner market as the segment degrew by something like 20-25%. That has impacted our Q1 results. Our turnover has degrown by 5% and our profit before tax is down by 11% and PAT by 2%. However, we believe that going forward, we should be able to recoup and post a growth. We believe that Q2 should be better than Q2 of corresponding last year. And even in air conditioners we believe that we should be able to recoup the lost numbers in the fourth quarter of the current financial year.

I would be glad to take on any questions.

Moderator

Thank you. We will now begin the question and answer session. Participants who wish to ask a question, may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2.' Participants are requested to use handsets only while asking a question. Anyone who has a question may press '*' and '1' at this time. The first question is from the line of Yuti Dalal from Corporate Database, please go ahead.

Yuti Dalal

Good afternoon, sir. Could you give a breakup of your revenues by the various products and the volume as well as the value growth you have had year-on-year, please?

- G. Sundar** Well, there was one part which I did miss out that besides the degrowth that we had in the AC segment, there was also a consolidation that took place in the Mobile segment and in a sense the second rung players were stocked with heavy inventories. The market overall also degrew by 12% and therefore, we were also forced to go on the back foot. What we did is, we made a strategy to exit the lower end of the segment and move up the value chain and therefore, there was some pressure on volumes for Q1. In Q1 mobile volume degrew by 16% and margin also came down as we liquidated our low end models. But going forward we believe that Q2 onwards it should improve. Now responding specifically to your questions in terms of volume-wise data, Colour Television is negative by 2%, LCD is at 144% growth, DVD is minus 39%, AC minus 26%, Washing Machine on a 15% growth, Microwave has 10% growth and Mobile on a 16% degrowth.
- Yuti Dalal** In terms of value, how are the sales split?
- G. Sundar** In terms of value, CTV minus 5%, LCD growth of 128%, DVD minus 42%, AC minus 17%, Washing Machines 29% growth, Microwave growth of 19%, Mobile minus 35%, therefore the total of minus 5%.
- Yuti Dalal** Okay, thank you. The other question I had was if you could throw some light on where how much of your sales came from new products, which were the new products launched if any, how is the new AC that you had launched last quarter, the SMS AC, how is that doing now, and what basically drove at least the amount of sales that did happen in ACs?
- G. Sundar** In air conditioners, the feature 'SMS Gone, AC ON' had done pretty well. Actually, frankly speaking what happened is, quite a few and especially the Koreans have lost market share, they virtually dropped by more than 5% each in terms of market share. They were stocked with a lot of inventories. Also players like Whirlpool and Voltas towards the end of the season have dropped price pretty significantly. We also do have inventories but our inventories are under within manageable levels and therefore we did not adopt the crazy price reduction, which the other players adopted. And therefore towards the end of first quarter probably you would have not seen us as aggressive as probably the other players. We are waiting for things to stabilize. We will get some indication. Up till now the raw material prices haven't come down, in a sense the copper prices have not shown any significant drop. We are still looking at how things will evolve for next year and before we take any call in this particular category. We believe that may be even in Q2 ACs might not see any growth. The growth will start coming in from Q3 onwards.
- Yuti Dalal** So you do see Q3, the festive season making up for what you have lost this quarter?

- G. Sundar** I would not say that. Probably Q3 will make good for whatever loss that will happen in Q2. It is primarily Q4 which will recoup and will take care of the drop in Q1.
- Yuti Dalal** But sir, Q4 is normally anyway a good quarter for ACs, with summer sales coming up and especially last quarter was very good as well because you had an early launch and an early advertising campaign, which had pushed your sales. So do you see that doing even better now in the coming Q4?
- G. Sundar** Precisely. Because what has happened is we will get a gain on, the brand overall has had a better recall and has got a better customer pull now than what was prior to last season. Therefore, we believe that in Q4 we will be able to do better than what we did in Q4 of last year.
- Yuti Dalal** Okay and where do you see it doing better in terms of tier of cities and metros or do you see it doing in tier 2, tier 3 towns?
- G. Sundar** Well, across market segments and the surveys of Air conditioners have helped us gain in weak markets, like Punjab wherein we have been able to gain substantial volume.
- Yuti Dalal** Okay sir you also mentioned that the Korean players lost market share of 5% each, so who gained by their loss?
- G. Sundar** To my mind the people who gained market shares are people like us, Daikin gained, Voltas to some extent would have gained and other key players like Hitachi.
- Yuti Dalal** The new Japanese entrant?
- G. Sundar** Yes.
- Yuti Dalal** What would be our market shares in ACs now?
- G. Sundar** Our market share in AC on an overall basis is 9.6% for Q1.
- Yuti Dalal** For Q1. Okay sir. I'll come back for more questions. Thank you.
- Moderator** Thank you. The next question is from the line of Kaustav Kakati from PUG Securities, please go ahead.
- Kaustav Kakati** Good afternoon, sir. Can you just give us a mix between the various segments, revenue mix between your various products for this particular quarter?

- G. Sundar** For this quarter CTV contributes 31%, LCD 11%, DVD 3, AC 30%, Washing Machine 7%, Microwave 2% and Mobile 8%.
- Kaustav Kakati** Alright sir. You are saying that the recoup in the ACs will happen mostly towards the third and fourth quarter, is it?
- G. Sundar** 3rd and 4th quarter.
- Kaustav Kakati** Okay sir, do you expect that 30% contribution to go up somewhere like 35-40% by then?
- G. Sundar** Yes definitely, in 4th quarter it will be much higher.
- Kaustav Kakati** Okay and what is your outlook on the margin front? You are saying that raw material prices haven't dropped. So do you believe that your margins will continue to remain under pressure?
- G. Sundar** Margins still continue to remain under pressure but margins on overall basis are quite stabilized. In LCDs we have been able to witness a good increase in margins and therefore we believe that we will be able to sustain that. The declining categories like DVDs are causing us a little bit of a concern because the decline is much more sharper than what we had originally anticipated and the other product categories which is not really our focus area but is helping us grow in top-line is Washing Machine. Washing machine is growing at a healthy rate.
- Kaustav Kakati** And you are reporting decent value growth in that also?
- G. Sundar** Right.
- Kaustav Kakati** Okay sir. Alright sir, I'll come back with further questions. Thank you.
- Moderator** Thank you. The next question is from the line of Vinay Paharia from Religare Mutual Fund, please go ahead.
- Vinay Paharia** In your opening comments you mentioned that you broadly expect the demand to revise in second quarter of this year. Any specific drivers to that revival, what are the trends you are seeing right now in the overall market?
- G. Sundar** Frankly speaking, actually what I said is we would probably grow in Q2. That primarily is coming from the fact that if you see the major growth in Q2 compared to last year's Q2 would be our LCD, which is growing at a healthy pace. We have also launched in a new series of LED TVs which is called as the "N" series and this is helping us to grow by more

than 100% in that particular category. So while as I said you could have a marginal degrowth in AC but most other categories will grow and we believe that even Mobile which has degrown in Q1 will grow in Q2. In Mobile, let me share with you all that we have launched the first of the Android phone. It's a very unique Android phone because it is an Android with a QWERTY pad, it's very similar to the ChaCha that HTC has launched. And the initial feedback on this phone has been pretty good. Actually we want to do a marketing campaign, this marketing campaign has been slightly delayed but it will probably hit the scene around 18th of August and we expect that with that launch we would be able to take the brand up because unlike what we need to advertise earlier in different brands, now we have free channels. GEC channel to push the brand in the higher SEC segments. The new marketing campaign for the mobile is expected to go on air from Mid August and we believe that this will give a good impetus to the brand, then hopefully mobiles will catch on, LCDs are already in a good growth path and our TV campaign with Onida "X-factor" has been doing pretty well and therefore I believe that Q2 we should be able to show growth compared to last year.

Vinay Paharia And how much is LCD and LED combined as a percentage of the total value?

G. Sundar 42%.

Vinay Paharia 42%. Okay and Television?

G. Sundar LCD and TV combined.

Vinay Paharia Okay, so you are saying the total television sales is 42%.

G. Sundar 42%.

Vinay Paharia And of that 42%, how much is LCD, LED combined?

G. Sundar LCD, LED as I said earlier is 11% of total turnover.

Vinay Paharia 11% and that's growing at a faster pace. But actually on a broader level question, for you, you would be growing predominantly because LCD and LED TVs within the TV categories but all the other categories are actually on a degrowth. And that's also not just MIRC specific phenomenon, it's actually a market problem, and there's a demand weakness. Is that something which you are seeing right now in the market improvement or weakness in the mood of consumers?

- G. Sundar** We don't see much of a change. The spike in the interest rate and consequent lesser consumer disposable surplus available in the hands of the consumers is having some kind of an impact. But surprisingly when I look into my own hire purchase sales figure, I don't see a dip there. So on an overall macro level, we look at it as a temporary dip and we don't see it as a major slowdown. What I see is that if you see the AC dip, frankly speaking it had nothing to do with interest rate or consumer mood or anything of that kind. AC dip is simply because the weather was not too harsh. The night temperature never went really high. And there was an early advent of the monsoon which spoiled the season. Everybody went in based on last year's performance and hence went overboard in terms of planning. Frankly speaking, there was no room for everybody to sell the kind of material that was manufactured or imported for that matter. So some kind of a hit would have happened. The only issue is the hit is far more severe than what probably we would have anticipated.
- Vinay Paharia** Sir, got the point. It's only AC as a category which is specific to that category?
- G. Sundar** Definitely. LCD is still growing at a healthy pace. And if you look at it, the other interesting thing is, Washing Machine as a category is also growing.
- Vinay Paharia** Do you sell refrigerators as well?
- G. Sundar** No, we do not sell refrigerators.
- Vinay Paharia** So Washing Machine as a category is growing?
- G. Sundar** Washing Machine as a category is growing. Microwave is growing for us because we see a potential, here we have a slew of launches hence we believe that microwave should be able to do better. In the Mobile space what has happened is certain of the large players have huge inventory. These stocks they are finding it difficult to liquidate. This affects their working capital cycle and therefore they are strapped for cash and are forced to liquidate it at times below cost. This has disturbed the whole market in the lower end. We see that phenomenon continuing for some more time and therefore we took a call to exit the low end. We are moving up the value chain. We have moved into touch screens and we have moved into Androids. We actually plan to launch a slew of Android phones. We are watching the launch of the first Android phone. We are seeing the customer acceptances. This phone is priced at about Rs.7000/- so we are seeing the customer acceptance for Onida Android phone at this price level. Once the acceptance is there, then we will ramp up in terms of launching higher end Android phone. So what we believe is, we don't want to very aggressively play the numbers game but we want to definitely be in to a healthy margin. We want to move up the value chain. We want to improve on the

ASPs and we want to invest in the brand in a more polished manner to be synonymous with the brand positioning in other product categories.

- Vinay Paharia** Sir, this volume degrowth was Onida specific phenomena of 15% in Mobile category? May be it's not a market phenomena?
- G. Sundar** If you look at it, the market in Mobile in value terms degrew by 12% and in volume terms it degrew by something like 16%. So our drop is in sync with the market. But internally, we don't take solace under that, because our market share being so minuscule we don't have to move in sync with the market.
- Vinay Paharia** Sir, but what would be the reason for this degrowth? Is that also some specific macro reason or there is a micro industry specific reason for this degrowth in volumes in Mobiles?
- G. Sundar** I think people are now shifting in from the lower end bar feature phones to higher categories because it is now increasingly catering to the replacement market kind of thing.
- Vinay Paharia** So basically right now whatever phones were to be ceded in the category have been ceded. Market is saturated in that sense.
- G. Sundar** Exactly.
- Vinay Paharia** Okay, thanks sir, I am through with my questions.
- Moderator** Thank you. The next question is from the line of Krunal Shah from Amideep Capital Investments, please go ahead.
- Krunal Shah** Hello sir. You said Washing Machines are showing good growth. Sir, anything specific that was driving the growth over there sir?
- G. Sundar** Well actually where I come from is in this consumer durable category, the space in which we operate, the segment as such has been growing. Certain of these trends are very difficult to predict. Though we don't operate in the Refrigerator category, if you look at last year, the segment that grew was the direct cool segment. Probably that means that the first time buyers came in, people who were not using Refrigerators stepped in and that is where the direct cool did phenomenally well. This year you do not see as much of a growth in those segments as much as CTV, Washing Machine segments. Means you are seeing a 15% growth.
- Krunal Shah** Sir, we are into both front loading and top loading machines right?

- G. Sundar** Right.
- Krunal Shah** And sir which one of them is doing better sir? Any comparison is there?
- G. Sundar** The top loading. The front loading still has a very small share of the total market.
- Krunal Shah** Okay, do that front loading would I would say move a commercial laundry as such?
- G. Sundar** No frankly speaking, in the cities, people believe that the front loading is ultra premium and the top loading is what is used in the non-metros. But to tell you very frankly from a user perspective, suppose if you are not getting continuous supply of water, there is no continuous supply of electricity, you would still prefer a top loading to a front loading because the front loading you can not put the clothes in, once the machine is switched on there is no way you can open it or do any changes in the cycle. In the top loading you can always open the lid and put more clothes inside. If there is no water coming in the tap at least you can fill up a bucket of water and pour it from top. These options are not available in FLT. But a city woman normally, to say she has come of age, would like to buy a front loading as compared to a top loading. Also, in front loading one would have to bend the back and put these clothes inside. And the front loading the prices are normally in the range of 15,000 to 25,000 where as the top loading would be anywhere between 8000 and 15,000.
- Krunal Shah** Okay sir do we see any growth in commercial laundry which we could explore sir?
- G. Sundar** One could look at that but it's a separate machine by itself. What you call as the laundrette, I understand there are a couple of companies which have come with the idea of putting up a chain of laundrette, typical to what is available in many parts of the world. However, another company which is probably looking at catering to the bachelors and the working couple wherein they would pick their clothes from their homes and deliver it back to them in an ironed manner in a hanger and so on and so forth. But these are good opportunities but frankly speaking it doesn't fit into our scheme of things, wherein we are basically box sellers so we are not going into services sector, plus on top of it, to be very frank, the commercial laundry machines are slightly of a different design, built, etc. the commercial investment would not be viable.
- Krunal Shah** So it would require a higher scale of motors and use it, right?
- G. Sundar** Exactly. Also, the tooling etc. would not justify the investments.
- Krunal Shah** Okay, that's it from me. Thank you so much sir.

- Moderator** Thank you. The next question is from the line of Prerna Jhunjunwala from HSBC Invest Direct, please go ahead.
- Prerna Jhunjunwala** Good evening sir. Few questions on, sir what is your likely advertisement and promotion expenses going forward? Because since the new launches are coming in, that might increase in the coming quarter?
- G. Sundar** That's true. Actually, as I said we intended a higher ad spend even in Q1. But, however, we cut short our AC advertisements because we did not see the season picking up. So therefore in Q1 the promotion spend is in the range of about 4% odd. Going forward we intend to increase it to 5-5.5%. So 5% is what you would see in Q2 and depending upon how the market behaves we would probably increase that.
- Prerna Jhunjunwala** Okay, and sir what would be your debt level?
- G. Sundar** Our debt currently is at about 170 crores.
- Prerna Jhunjunwala** Okay and sir this would be largely working capital?
- G. Sundar** Yes, primarily into the working capital.
- Prerna Jhunjunwala** Thank you sir.
- Moderator** Thank you. We have a follow-up question from the line of Yuti Dalal from Corporate Database, please go ahead.
- Yuti Dalal** Hi sir, sorry, just missed the numbers on proportion of your total sales, that's for air-conditioning and DVDs and others. The percentage of total sales for ACs for the quarter?
- G. Sundar** AC is 30%.
- Yuti Dalal** DVDs?
- G. Sundar** DVD 3%
- Yuti Dalal** And others?
- G. Sundar** Others is 8%
- Yuti Dalal** Okay, that's it. Thanks

- Moderator** Thank you. The next question is from the line of Kaustav Kakati from PUG Securities, please go ahead.
- Kaustav Kakati** I just actually missed out on the volume figure for Washing Machines sir. You said it was more than the market growth rate of 15%. What was the exact number sir?
- G. Sundar** Our growth was 15%.
- Kaustav Kakati** Your growth was 15%.
- G. Sundar** Market was 12%.
- Kaustav Kakati** Market was 12% and for Microwave sir?
- G. Sundar** Microwave, our growth is 10%, but if you see our value growth in Washing Machine was 29%. And our Microwave value growth is 19%.
- Kaustav Kakati** Yes those numbers I got sir. And sir one more thing you said that you were trying to move up the value chain in your Mobile segment. What was the value growth there sir for this quarter?
- G. Sundar** This quarter value has degrown by 35%. This quarter was more of a correction quarter. If you see the numbers in terms of volume there is a 16% degrowth and in value there is a 35% degrowth.
- Kaustav Kakati** Okay but from the second half quarter onwards we will probably see an improvement in the value part it will move up the value chain?
- G. Sundar** Yes
- Kaustav Kakati** Alright sir. Thank you.
- 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 all the participants and the management for this call. Thank you, sir.
- G. Sundar** Thank you.

Moderator

Thank you. On behalf of Tata Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.