



“MIRC Electronics Conference Call Hosted by Tata Securities Limited”

March 10, 2011



TATA SECURITIES



MODERATORS **MR. G. SUNDAR – CHIEF EXECUTIVE OFFICER, MIRC ELECTRONICS LIMITED**
MR. SAMEER DESHMUKH – ANALYST, TATA SECURITIES LIMITED.



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Moderator Ladies and gentlemen good day and welcome to the MIRC Electronics conference call hosted by Tata Securities Limited. As a reminder 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, please signal an operator by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Sameer Deshmukh from Tata Securities. Thank you and over to you sir.

Sameer Deshmukh Hi. Thanks. Welcome everybody to the conference call of MIRC Electronics. We have with us Mr. Sundar, the Chief Executive Officer of MIRC. Without wasting any time, we'll hand it over to Mr. Sundar make introductory remarks and probably then we can proceed to the Q&A session. Over to you Mr. Sundar.

G. Sundar Good afternoon to everybody. Let me give a recap of what happened in Q3. Q3 has been pretty good. We have registered a growth of 34%. As I had explained last time the growth engine basically LCD and mobile have registered more than 100% growth. Air conditioners though it's not the season, yet it has registered about 13% growth in value terms. The right yardstick and benchmark would be to look at the YTD figures because the Q3 figures are not exactly comparable with Q3 of the prior year because of the postponement of the season and therefore if you look at the YTD numbers we have registered a growth of 21% and even in the YTD numbers the LCD and mobile registered a growth of more than 100% and air conditioners have registered a growth of about 34%. The PBT-PAT growth has been inline with the growth in turn over. The profit before tax has grown over 50% and PAT by 40%. That's as far as the last quarter is concerned. We continue to see the momentum being carried forward to the fourth quarter. I am glad to say that our air conditioners and the basic USP that we had established for the current year and that is 'SMS gone AC on' has been well received in the market and we believe that we are on target to achieve the 2000 crore turnover that we were planning in the beginning of the year. I will be glad to take on any question.

Moderator Thank you very much sir. The first question is from the line of K.S Batra, an individual investor. Please go ahead.

K.S. Batra Recently these raw material prices have gone up. How is it going to affect our business especially in the AC business because copper and aluminum prices have gone up sharply?

G. Sundar We very rarely face this issue of the raw material input prices going up which is passed on to consumer. We in fact factor in a 6% to 7% reduction in ASP on a year-on-year basis. Most of these organizations are very well tuned to what we call as the value engineering etc. and that's where we look at alternate material, look at other value engineering ideas in terms of how you can bring it down. In the current year the increase in the input cost has been quite severe especially in the area of copper more so than in any other material. What we have done especially in the air conditioner segment is we have been able to pass on the increase to a very



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large extent to the consumer. But what typically happens is when we introduce new models and the new models are priced at a premium to the existing ones and that's how gradually the ASPs has increased. But at this point of time, to answer your question more specifically, in air conditioners we have been able to increase the price and the price increase has already been rolled out. In most other product categories there is more in terms of model mix cost that the increase that has been managed.

K.S. Batra

How do our prices stand compared to LG and Samsung in the AC business?

G. Sundar

Well, in air conditioners we are on par with them or marginally lower.

K.S. Batra

Okay do we have our own manufacturing coil in the AC business?

G. Sundar

No at this point in time, we have, I'll just take you on what I just shared in the last conference call. Our business model is we own the tooling, design is made by us and we get it manufactured wherever it is cheaper. So we don't necessarily focus more in terms of vertical integration of the plant and getting into manufacturing of component and so on and so forth. Our core strength is in the design. Say for example, the air conditioners that we have launched in the current year, as an air conditioner you can switch on from anywhere in India by simply sending an sms to your air conditioner.

K.S. Batra

That is ok. But I feel we outsource the manufacturing of the coil, is it true?

G. Sundar

Yes that is true.

K.S. Batra

Okay what is the total contribution of AC in our total business?

G. Sundar

Well, it's in the range, let me get back to you, it's about 15%.

K.S. Batra

15, okay. Right sir. Thank you sir.

Moderator

Thank you. The next question is from Kiran Chedda from Value Quest Research. Please go ahead.

Kiran Chedda

Sir Can you give the break up of your sales in terms of revenues from TV, ACs, mobile phones?

G. Sundar

I will give you what our estimate would be in terms of the current year. We would expect, color television to be about 39%, air conditioners about 16%, and mobile 13%. The rest is contributed by flat panel business, DVD, washing machines, microwave.

Kiran Chedda

Okay, so that is also around 40%.

G. Sundar

Yeah.



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- Kiran Chedda** Okay and sir can you give me the EBITDA margin in each of this segment?
- G. Sundar** The margin as I said in most of the product categories is around 20%. Only in case of color television there has been an anti dumping duty that has been imposed on color television last year that has impacted the margin in terms of color televisions and here what we mean by color television is TV excluding flat panels that is excluding LCDs and LEDs. There it is in the range of about 16 to 17% but most of the product category we are in this 20%...
- Kiran Chedda** 20% you mean gross margin?
- G. Sundar** Gross margin correct.
- Kiran Chedda** And sir EBITDA margin?
- G. Sundar** EBITDA margins we are about 4%.
- Kiran Chedda** Okay and sir I guess you had launched LED in September October 2010, how has been the response?
- G. Sundar** Response has been pretty good. In fact up till now LCD, LED division was not profitable because we were struggling to establish ourselves there in that category. The LEDs which were launched just before Diwali has been received well. The product has been well appreciated primarily in terms of picture performance; they are comparable with Sony and Samsung LEDs of equal categories. And that business has been steadily growing. So that's where we have been able to register a 100 plus percent growth in that segment. And slowly it is becoming more and more profitable also.
- Kiran Chedda** Okay and can you tell the absolute amount of sales?
- G. Sundar** Absolute amount in terms of flat panel business turnover till date is about 70 crores.
- Kiran Chedda** And all these products are available across India?
- G. Sundar** Yeah available across India.
- Kiran Chedda** Available across India and in all stores like Croma, Vijay sales and all.
- G. Sundar** Yeah. I mean the LCD turnover up till Q3 is 130 crores. The growth is 70 crores.
- Kiran Chedda** Okay 130 crores, LCD, LED, Flat TV everything. And sir going forward do you see this mix changing because margins in TV segment are very low currently? And going forward if there is any change in mix, then there is a possibility of improvement in margins.



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- G. Sundar** As I said, the organization is still focusing in terms of maintaining the growth momentum. Given an opportunity we will like to invest more into the brands. For example even our ACs, when I have had individual interactions with people, if more and more people get to know of our USP, chances of enhancing sales is much more. So that's where we would like to invest more into brand communication and brand visibility. So, therefore as we rightly said, as we increase the overall turnover, we get in a greater kitty and mass to invest in to the brand.
- Kiran Chedda** This year if I am not wrong our target was around 100 crores to invest in branches right?
- G. Sundar** Yes.
- Kiran Chedda** Sir what is our target for FY12?
- G. Sundar** FY12, we are well in the process of making our budget. We see 50% growth in the investment in the brand.
- Kiran Chedda** So around 150 crore?
- G. Sundar** Yeah.
- Kiran Chedda** Okay and currently the commodity prices have shot up at 10-15 or 15-20% in the last quarter, have we been able to pass on the increase in all segments? You said you have increased prices of AC, air conditioners but in LCD, LED and in that case have we been able to pass on?
- G. Sundar** You are right in asking the question. In most other product categories, the metal component in the product is far less. Of course you have in washing machines and especially even in plastic or a metal body washing machine in both cases the component of plastics is more and with the rise in crude prices or plastic prices has also gone up. In most other product categories we have been able to increase the price. Washing machine is another big category wherein we have been able to increase the price. In televisions and flat panels the price hasn't gone up as yet. Because the major constituent of the price is the panel itself. It contributes to about 60% of flat panel and panel prices haven't firmed up too significantly. Panel prices are more a function of supply and demand and also there again demand in whichever category so to say. Let's say for example, today you have a tablet which is booming for a small screen. LCDs are now getting diverted there into those segments so on and so forth. It's more a function of demand and supply rather than a material cost, cost of the price movement.
- Kiran Chedda** And the demand is strong right now?
- G. Sundar** Demand is strong but more importantly enough production capacities have come up I have shared in the last con call that in the initial stages of the launch of the flat panels the Koreans have been able to control the supply of the panel and therefore the panel cost was far higher as compared to a percentage to the total end product pricing. But as I said in the last quarter and



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more so by December 2010. Capacities have now come up both in Taiwan and in China for flat panels and therefore flat panels prices can no more be controlled by the Koreans. Once that is filled in, people like us will have a greater say in terms of being able to bring products faster to the market and also in terms of leveraging margin, lining with supplier so and so forth.

Kiran Chedda

But I guess the prices of Chinese goods will be much lower than ours. So wouldn't that affect our price in going forward? Because you said, Koreans won't...

G. Sundar

But let me share with you, both AUO and Samsung are pretty good panel supplier and you will be surprised that if you had got a Samsung LCD last year, you could have had AUO panel inside it. Actually the game the Korean played was that the guys like Samsung bought out the capacity of AUO and therefore ensured that AUO was not able to supply to customers outside their controlled area. So its not that the quality is anyway inferior to Samsung LCD panel and it is how you buy it.

Kiran Chedda

Okay and sir one last question, what is the current debt on book?

G. Sundar

The debt is in the range of about 140 odd crores. Our CAPEX plan in line with our cash flow generation. Having said that, this year I have shared it last time that our inventory on 31st March will be much higher because we have preponed our complete buying of air conditioners. We definitely see that helping us because fortunately for us one when we contracted the air conditioners copper price was not as high as Rs.10000. so we do get an advantage it was a smart move on our part to have brought in product much earlier. And therefore you see on the 31st March, the inventory is likely to be on the higher side. But even then that doesn't materially impact us in terms of borrowing and borrowing cost.

Kiran Chedda

Okay sir. Thank you.

Moderator

Thank you. The next question is from Dhaval Gada from Edelweiss. Please go ahead.

Dhaval Gada

I have couple of questions. One on the volumes and if you can share each segment. The CTV, LCD segment, the AC and mobile, how much has been the volume. Year to date and in Q3?

G. Sundar

Well on an YTD basis in terms of volume, the color television has grown by about 32%, LCD about 134%, DVD 12%, Air conditioner 15%, washing machine 19%, and microwave 21%, mobile 188%.

Dhaval Gada

Okay, sir if I understand correctly, our mobile and our air condition segment have relatively higher margins as compared to the color television and the LCD segment.



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- G. Sundar** The numbers that I have given is for Q3. YTD basis color television is 8%, LCD 107%, DVD 3%, Air conditioner 30%, washing machine 5%, microwave 3% and mobile 257%. Volume growth compared to last year, same period.
- Dhaval Gada** Okay. Sir had a question on this. If I understand correctly, our margins in the mobile category and AC category are relatively higher as compared to the color television and LCD category. So why has there not been any margin expansion in the EBITDA level year to date because if we have a higher margin, what has been the reason for gross margin not improving and EBITDA also not improving?
- G. Sundar** EBITDA has marginally increased. First to correct that it has moved up by 3.8% to 4% if I am not mistaken and as I explained there has been an increase in the ads spends. So that has resulted in the EBITDA being around the same level.
- Dhaval Gada** Sir if I see correctly the gross margins have not improved. I understand EBITDA has improved but gross margins are still at those levels as it was last year because last year mobile was contributing significantly lower as compared to this year. Still our margins at gross levels have not improved because I understand firstly that mobile contributions in gross margin term is higher as compared to CTV and LCD category. So I am not able to understand why gross margins have not improved.
- G. Sundar** YTD basis or gross margins have gone up by 14%.
- Dhaval Gada** Okay I'll get back on that. Second question was on the working capital front, what is the current working capital base that we have? Is it expanded over the last nine months?
- G. Sundar** No. compared to 31st march it is around the same level. Say about 140 or exactly if you want the figure is 147 crores.
- Dhaval Gada** Okay and if that is the case then why has our debts not reduced. Because when we last met, we were talking about debt being reduced significantly this year and next year. Because we will have cash flows coming in from our businesses. So has it gone more to build up the inventory, what exactly has happened?
- G. Sundar** Yes as I said the inventory has been on the rise and you would see that probably in the 31st March balance Sheet more pronounced but by 30th June you would see it at the lowest level before again the inventory rising up for the season next year. I assure you the inventory is very much under control in the sense that we don't have any flat inventory. It is a well defined strategic call to build up our inventory primarily in the air conditioning segment because just in case, the summer is pre-poned then we are in the better position to encash on that.
- Dhaval Gada** And what would be our inventory levels as on 31st December?



- G. Sundar** 31st December inventory levels are 345 crores.
- Dhaval Gada** 345 crores okay, and ACs are negative working capital business, right?
- G. Sundar** Yeah.
- Dhaval Gada** Okay. Sir another question was on the distribution front. Sir just wanted to get a sense how is our distribution improved over the last 9 to 12 months? Because when we saw change in the marketing head, we were talking about distribution being improved, that is one of our key focus areas because that has not grown in the last three years. So how has that improved in the last one year?
- G. Sundar** There was emphasis and focus on the modern trade and again 21% YTD growth in terms of the company the increase in the modern trade is in the range of 31%. So we have been able to have a good structure there to slightly in terms of modern trade our visibility should have gone up. In terms of distribution in terms of mobile business we have done a pretty good job, we have moved up in terms of our own direct distribution to 250 points to about 310 and in terms of Onida product there the focus has been more in terms of the A category dealers and in terms of modern trade.
- Dhaval Gada** Okay if I talk in absolute terms how much would be our current distributors as on lets say today, how much have we improved in absolute terms in terms of distribution network?
- G. Sundar** That numbers off hand I would not have. Actually, it is different across different categories. For IGO as such we are 100% in to distribution, so I could give you a particular number there but more in terms of the main, say Onida business, what happens here we have three categories, we have got distributors and we have got wholesalers. Whole sellers are actually guys who are distributors but have the counters of their own and then there are direct retailers. So what we have sensed last time as I have shared is the market was more into the consolidation zone and we could see that the big trader, big dealers are becoming still bigger and the modern trade was growing. So we laid our focus there in terms of both modern trade as well as in terms of sale to the big chain retailers like Vijay Sales. And in this area we have been able to have a better growth than as compared to the market. In terms of pure, distribution width, we would have a marginal increase there but the focus has been more in the modern trade and the big retailer.
- Dhaval Gada** Okay. Sir what would be our contribution from modern trade or our revenue contribution from modern trade?
- G. Sundar** About 12%.
- Dhaval Gada** 12% okay. Sir going forward what is the revenue visibility that you are looking at for the next 2 to 3 years. How much growth can we sustain over the next three years?



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- G. Sundar** Well we would look at sustaining the growth momentum that we had set for ourselves we had plan to move in to the one billion revenue target by the year 2013 (FY14). We are still working on that. Frankly speaking we are in the process of finalizing our budget for the next year. We expect to keep the growth momentum going but at this point in time, I don't have the specific figures in hand.
- Dhaval Gada** Okay but sir would it be 20-25% CAGR growth over the next few years. Would it be safe to assume that?
- G. Sundar** Yeah. Actually it would be safe to take these numbers but to be very frank with you; these numbers will not help up to reach the one billion target. So we'll have to rationalize beyond this. To be very frank those numbers would be more relevant. Because you see at the end of the day that is the kind of growth that we have been able to register. Though of course 20-25% growth would be slightly better but that is because in ACs we have been able to deliver much better. On a year on year basis, I think that 20-25% would be far more realistic in today's time and we stand by that as of now.
- Dhaval Gada** Okay and sir when we reach the one billion mark, how much improvement can we see in our EBITDA and PAT margins? Would there be a significant expansion, how do you see margin improving because I understand that in the last con call and even before that you were talking about that critical mark that we need in advertisement expenditure.
- G. Sundar** See once we hit the one billion target, then you will see a significant expansion in both the areas, in both margins as well as in PAT. Because you see, if you look at it we are still working very hard on that design with you in mind and creating our own USPs and therefore capitalizing on that business opportunity. Once we have the critical mass in terms of brand communication we would be able to expand the premium in those products and therefore our gross margins will improve. Then we can comfortably hold on to a 5% investment in terms of our brand and therefore the balance will straight away come to the bottom line. And by that time we will also have significant cash flows wherein we would very easily become a debt-free company.
- Dhaval Gada** Going forward how do you see our revenue mix changing when we reach that critical figure, how would our revenue mix look? Would it be even more skewed towards flat televisions? How would it look?
- G. Sundar** To give you a broad idea what we are working towards is at 1000 crore each coming from mobile, air conditioners, and flat panel business, with the balance 1000 being met from the other products category. This is a very simplistic way of putting it across, these are the broad numbers.
- Dhaval Gada** And this target is for FY13, right?



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- G. Sundar** FY13-14.
- Dhaval Gada** That's all from my side, thank you.
- Moderator** Thank you sir. The next question is from Yuti Dalal from Corporate Database. Please go ahead.
- Yuti Dalal** I just wanted some more information if you could talk a bit about this 1000 crore break-up. And when you reach the 1 billion what your mix will be and what is it currently and what is the change and why is it going to change?
- G. Sundar** As I said in the year 2010 we set for ourselves the target for a \$1 billion turnover and we identified three growth engines which will help us achieve that target. And growth engines were air-conditioners, mobiles and flat panel business. To address bit by bit, the color television and the flat panel business contributes about slightly less than 1000 crores at this point in time. We see a very quick and a fast migration from a color television to a flat panel and that is where we believe that the flat panel business would easily contribute to that \$1 billion turnover. Mobile, of course, the market itself is so huge, we are a very value conscious player. Maybe we have not had a rocket kind of a growth in terms of this but we are a very slow and steady player. More importantly as I had explained it last time, our inventories are well valued in the sense that we do not have any models which are stuck which are not moving. We have been very fast in terms of taking in those actions. This season if you see currently we are on air in DD in terms of mobile phone with an FM transmitter is the first of the unique phones that we have launched from our side. There is no such phone available in the world today which has an FM transmitter. The advantage of this is, suppose you are traveling anywhere in the world and you are there in a taxi and you would like to listen to your own music you can simply ask the driver to tune the FM to your channel and you can listen to the complete music of your choice with your own volume control, etc., and this feature is offered at a very affordable price with no incremental cost, it is a very marginal incremental cost that we have been able to command in a good premium and this product has been well-received in the market. So with such innovative phones that we will continue to launch over a period of time we expect to garner in a higher market share. The market share that we have planned for ourselves is very minuscule in terms of a percentage so to say, but we believe this 1000 crore turnover is definitely in the realm of what we could do. The third is air-conditioners. Air-conditioners we would do about 270,000 this year we expect to do about slightly less than half a million next year So we are on track towards what we believe is a 15% market share in the split AC segment that will help us achieve the 1000 crores turnover. Once we have critical mass in these three product categories, the balance 1000 crores is easily achievable.
- Yuti Dalal** What is the current revenue from air-conditioners and mobiles?



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- G. Sundar** I have given those numbers in terms of YTD. I have already stated that during the conference. Do you want to know the exact numbers?
- Yuti Dalal** Yes.
- G. Sundar** It is about 228 crores in terms of air-conditioners, 130 crores for LCDs and mobile is about 180. This is the nine-month figure for the current year.
- Yuti Dalal** Also if you could give some estimated CAPEX that you have planned to reach this target for 1000 crores?
- G. Sundar** Well, we had just completed our expansion plans in Roorkee wherein we have put up an appliance plant. To be very frank we are toying up with an idea of putting up a mother plant somewhere in Maharashtra. But it is there in the ideation stage. Whenever we firm up we will definitely put it up to the Board for approval and then at that point in time we will be able to make that announcement. But at this point in time we are contemplating between now in the next couple of years we would definitely put up another very big facility probably somewhere in Maharashtra.
- Yuti Dalal** What would the estimated cost of such a facility be?
- G. Sundar** As I said, it is all being worked out. We have not firmed up. Even the location has not been yet firmed up. But you could see that and whenever it comes through we will make an announcement at an appropriate time.
- Yuti Dalal** And one last question, with regards to input cost and pricing pressures since a bunch of stuff that comes from China. We have heard a lot of pricing pressures happening over there. Is that likely to affect you or affect any product and therefore affect prices in the market here?
- G. Sundar** Yes as I said, in washing machine and air-conditioners these are the two major product categories where the metal or the plastic component is very high. Whenever they are electronics especially in the flat panel, in the panel the cost has not really gone up in sync with the increase in the material cost. And when I am saying material cost meaning in sync with the metal cost so to say. So in these two product categories we have increased and the balance there has been no increase. And there has been consequently not much of an increase in the input cost.
- Yuti Dalal** Any particular pressures in the mobile business at all?
- G. Sundar** In the mobile business the prices still continue to come down. We do not see any increase in pricing at this point in time.
- Yuti Dalal** That's it from me, thank you.



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- Moderator** Thank you. The next question is a follow-up question from Dhaval Gada from Edelweiss. Please go ahead.
- Dhaval Gada** Just one more question actually. We were talking about the expansion plan. I wanted to know are we getting into refrigerators as well at some point in the next 2 to 3 years.
- G. Sundar** Well, our \$1 billion target does not include refrigerator. But somewhere you would definitely hear from us in terms of an air conditioner plant and once that plant comes in, maybe then logical extension would be into a refrigeration business.
- Dhaval Gada** Is it something that will be there in the next year or it will be another two years before we think of an air conditioner plant coming up? Are we looking at it in FY-12 or FY-13?
- G. Sundar** The plant would come up in FY-13 but the start of the construction activity, etc., could happen in FY-12. We have not firmed up so I cannot...
- Dhaval Gada** Sir I wanted to know how much did we spend on the Roorkee plant in terms of CAPEX?
- G. Sundar** It is about 60 crores.
- Dhaval Gada** If we plan to set up an air conditioner plant how much would roughly be the estimate of the CAPEX cost that we will incur?
- G. Sundar** As I said we have not firmed up but since you want a number from my side I can say it would be in the range of about 100 odd crores.
- Dhaval Gada** If that is the case do you feel that our balance sheet has that strength to fund that 100 crores because we were talking about that margin expansion will only happen maybe two years down the line. So is there room for another 100 crores CAPEX because as it is last year we saw a squeeze in working capital. So will our cash flow manage in that case?
- G. Sundar** We have put up a Roorkee plant and you had seen what has happened in our balance sheet, not much of an impact. And I do not see our profit in terms of percentage coming down dramatically because in percentage terms it might be maintained if not be slightly on the positive side. It will be fair to assume that it will be maintained at the current level. We have that much of cash flow. See, it is not so much of a big thing. For a company of our stature to take in a 100 crores bid is not an issue. What I would like to emphasize and say is the most important thing is we already have that business. So once we have the plants then it is up and running from day one. It's not that you have put up a plant and then you look for markets and build-up on the markets and slowly have that build-up in terms of volume and turnover. And the R&D is completely controlled by us. So we know what exactly we want to do and how to go about making it possible.



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- Dhaval Gada** I do you remember that you said that once we reach that critical mass we will think of putting up a plant? So I wanted to know what is that critical mass that you were talking about to set up a plant under Onida itself?
- G. Sundar** It will be half-a-million, air conditioners.
- Dhaval Gada** And as of today how many air-conditioners do we sell annually?
- G. Sundar** We sell about 300,000.
- Dhaval Gada** So next year, you believe, we will be able to reach at least at 25%...
- G. Sundar** It would take us about 18 months to put up a plant. That is where I felt that maybe in FY12 we would do that. I want it to be very clear that at this point in time the decision is not taken. It is just that it is there in the thinking process. As an organization the moment we firm up, we will normally put it up to the Board and take their formal approval before we go ahead with any investment.
- Dhaval Gada** One more question, what is the benefit that we receive when we have our own facility and when we outsource? How much percentage difference do we have in terms of margin expansion?
- G. Sundar** Not much because I do not think that we would have a major cost advantage in terms of manufacturing it here vis-à-vis getting it outsourced from wherever. The more important thing that we see is we would have the supply chain very much under our control. More importantly the newer USP, the design elements that we are generating, they would be more under our control. And we also believe that to a greater extent they would also be confidentiality in terms of whatever we are doing. It's more in those places rather than in...
- Dhaval Gada** And just to get a little bit more insight, see it's a negative working capital business, air conditioners for us as of today. Once we get into a manufacturing situation then that advantage, do we still own that advantage or it will go away?
- G. Sundar** It will go down to some extent. I am not too clear in terms of whether it will still continue to be negative. But it will definitely go down to some extent.
- Dhaval Gada** One final question. On the margin front do we see the same level of margin that we have for FY10 and FY11 being there in FY12, or will we see some bit of improvement in margins in FY12?
- G. Sundar** It would be fair to assume the same level of margins because as I said that we would like to invest into the brand.
- Dhaval Gada** Thanks a lot.



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- Moderator** Thank you. The next question is from Rupen Masalia from R N Associates. Please go ahead.
- Rupen Masalia** Can you throw some light on new verticals like light emitting diode lighting? Can you throw some light on that particular product category and vertical?
- G. Sundar** Well, that product is in a very nascent stage at this point in time. FY-12 would be the first year of this operation. We have conservatively taken in a small target in terms of 50 crores in terms of turnover from that particular business category. But more importantly there we have gone full-fledged into manufacturing from day one. So the complete LED tube is manufactured in our plant here in Mumbai. So we believe that it's a very exciting area from a future growth opportunity point of view but at this point in time the whole industry is in a very nascent stage. There are a lot of cheaper opportunities available to consumer and we need to educate them in terms of quality of light, long-term durability, long life, so on and so forth. I would say that the year FY-12 would be an experimentation year and from FY-13 onwards you should see that investment going into that category in a bigger way.
- Rupen Masalia** Because as per the media report Onida and IgO both are targeting revenue worth 50 crores in the first year of operation, that is from rural side and from metropolitan side. So, both taken together that comes to around Rs. 100 crores.
- G. Sundar** 50 crores is what it is. It is not 50 crores each. It is 50 crores turnover that we are planning in that category. And more importantly the thing is where we see a huge advantage or huge opportunity is a) we understand the power driver side quite well so we would be able to design power drivers which are very suitable for this country and which is able to withstand the power fluctuations, etc. Second is, the LED manufacturing itself is very german to our business otherwise in the sense that it is an SMP mounting kind of an exercise. We have taken in steps towards strengthening our R&D in the lighting space so to say, so that we work with proper definition so on and so forth. So once we get that then we will get more focused in terms of distribution wherein we will have to target in a different set of distributors who are basically in the electrical and the lighting industry. And then the next step would be in terms of working towards fixtures etc. which would be very stylish, very contemporary and which could appeal to all. So this is the whole sequence of events which will go. And I am sure that by the same time next year we would definitely be in a position to very clearly project the numbers there.
- Rupen Masalia** And can you give some rough idea regarding margins in terms of EBITDA level from these vertical vis-à-vis the existing business profile?
- G. Sundar** This business is definitely, as things stand today a far more profitable business. The margins are much more healthier. But once the industry picks up volume picks up then you would have a lot of competition & margin may come under pressure. But I believe that even going forward it will be a far healthier.



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- Rupen Masalia** Apart from this is there any new vertical or product category which you all are planning at this juncture?
- G. Sundar** Not for the next year.
- Rupen Masalia** And on the CAPEX plan would the current set-up and capacities be sufficient enough to take you to that \$1 billion?
- G. Sundar** Not up to the \$1 billion. We could definitely believe that within this, we can manage but there would be a stretch in terms of capacity. We also like to derisk ourselves as I said that somewhere down the line we will build a plant so that there is some amount of internal production vis-à-vis being completely outsourced. That will happen much before we reach the \$1 billion turnover.
- Rupen Masalia** And in terms of brand building exercise if I am not mistaken for the next year, i.e., FY-12 you are planning around 150 crores?
- G. Sundar** Yes.
- Rupen Masalia** And this year 100 crores?
- G. Sundar** Yes.
- Rupen Masalia** So 50% growth for next year.
- G. Sundar** Yes.
- Rupen Masalia** And finally if you can share some thoughts on your dividend distribution policy.
- G. Sundar** There we have been pretty liberal. We have had a 100% dividend that has been paid over the last so many years. We could continue to see that going forward.
- Rupen Masalia** So in terms of payout the percentage of your bottom line that you are hinting at by and large it is in line with your past track record?
- G. Sundar** Exactly.
- Rupen Masalia** That's it from my side. Thank you very much.
- Moderator** Thank you. As there are no further questions from the participants I would now like to hand over the conference back to Mr. Sameer Deshmukh for closing comments.
- Sameer Deshmukh** Thanks Marina. On behalf of Tata Securities I thank all the participants as well as Mr. Sunder for this call. Thank you sir.



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G. Sundar

Thank you very much.

Moderator

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