



## “Havells India Limited Conference Call”

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**MODERATOR:**    **MR. ACHAL LOHADE - JM FINANCIAL INSTITUTIONAL  
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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Havells India Conference Call hosted by JM Financial Institutional Securities. As a reminder, all participants' line will be in the listen-only mode and there would be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Achal Lohade. Thank you and over to you, sir.

**Achal Lohade:** Thank you, Aman. Good Afternoon, Everyone. On behalf of JM Financial, we would like to welcome senior management team of Havells India Limited to discuss Sylvania divestment announced last week. The management today is being represented by Mr. Anil Rai Gupta – Chairman and Managing Director; Mr. Rajesh Gupta – Director, Finance and Group CFO and Mr. Rajiv Goel – Executive President. I will now hand over the call to the management team for initial remarks post which we will open up the floor for Q&A. Thank you and over to you Sir.

**Anil Rai Gupta:** Thank you, Achal. Ladies and Gentlemen, thank you for joining the call. We are very happy to announce that Havells has entered into definitive agreement with Shanghai Feilo company from China to divest 80% stake in Sylvania. It is subject to shareholders and related approvals. Feilo is a leading lighting company of China and is listed on the Shanghai Stock Exchange with a market cap of around €1.8 billion. Havells would continue to hold the remaining 20% stake with exit options in the next 3-5-years. So the current value for the 100% stake is around €186 million which is close to about Rs.1340 crores against current cumulative investment of around Rs.980 crores. The transaction currently excludes four countries, namely, Brazil, Thailand, Chile and USA with a possibility of transfer to Feilo after 12-months. The proposed combination with Feilo would bring much requisite technology and scale in Sylvania and it would be in greater interest of Sylvania, its employees, customers and vendors. Sylvania with this transaction would be well positioned to capitalize upon emerging opportunities in the disruptive global lighting industry.

Ladies and Gentlemen, the divestiture had been on our minds for some time now as we believe that this would be in the best interest of both Havells and Sylvania. We believe we have found the right partner in Feilo who not only add the requisite product strength to Sylvania, but would also be able to provide the capital for the next stage of growth in the European markets. Havells would also continue to look for opportunities for faster growth in future through product, brand and distribution enhancement.

Achal, we can now open for questions after this opening remark.

**Moderator:** Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

- Atul Mehra:** Sir, my question was on capital allocation from here on. So, we would have about Rs.500 crores on books plus the proceeds from the divestiture. So what is the plan for capital allocation going forward?
- Anil Rai Gupta:** I think this will be further debated internally. I think the company is quite focused on further growth through further investments maybe into acquisitions also. So, this is something over a period of time we will have to decide, we cannot immediately say that what will be the actual use of capital. We will continue to look for more opportunities for expansion.
- Atul Mehra:** But going forward, would it be domestic looking or are we open to say foreign investments as well?
- Anil Rai Gupta:** I would say for the next one or two years there will be more focus on the domestic expansion because we definitely feel that there is a far greater opportunity not only to look for new opportunities but also we can see that we will benefit a lot from the next stage of growth which will come into the domestic markets. But also it does not preclude us from looking at international markets though that might not be on the cards right away, but given the fact that we have been able to successfully manage and transition Sylvania, and also manage through a life cycle of the entire global crisis as well. It gives us a lot of confidence and in future we could look at possibilities outside of India as well. But at this moment it is not on the cards.
- Atul Mehra:** In terms of any scale or something because given that in terms of even domestic acquisitions, so any idea in terms of which category we could look at in terms of an inorganic kind of opportunity because ...?
- Anil Rai Gupta:** As far as inorganic goes, the strategy remains clear. Irrespective of geography it has to add to the product portfolio or to the brand strength of Havells or to the distribution strength of Havells. So, even in the last acquisition of Sylvania, this was the primary rationale behind the acquisition and that will continue to guide us in the future, so for example, a small product category could be added, that might be small allocation but brand, distribution enhancement, all these not related to the amount of capital at hand, but it is related to the opportunity per se.
- Atul Mehra:** In the interim, there will be no payout of dividend to shareholders?
- Anil Rai Gupta:** We have not debated it at the present moment. So, we cannot comment on it.
- Atul Mehra:** Just on the growth front, so given that first half has been pretty subdued in terms of growth for us, so what is the outlook like given the fact that in terms of real estate activity in itself has been pretty sluggish especially in the north, so where do we go from here in terms of growth?
- Anil Rai Gupta:** We would like to limit this call to the Sylvania transaction. So, I would request if the questions could be associated with that particularly, because unnecessary it will open up new concept, we could take it up at any later stage.

**Atul Mehra:** One other question that I had on Sylvania. So the remainder business that we have in terms of US, Chile, Brazil, Thailand, so I believe we had significant losses in this business in FY15, some of it was one-time in nature as well, but in first half FY16 perhaps if you could throw some light of what the quantum of losses would have been for remainder businesses of Sylvania and what we could close the year end?

**Anil Rai Gupta:** Last year we were around €11 million PAT loss in these four countries and this will be pretty much similar this year as well. But how we see is that these are now on path to recovery. Chile, in fact, we have already closed down our operations, so there are no new losses emerging from Chile going forward, I think US is now contained. So, our expectation is that over the next year or so this business should not be incurring any losses.

**Moderator:** Thank you. The next question is from the line of Navin Trivedi from Trust Research. Please go ahead.

**Navin Trivedi:** My question is what are our learnings for the Sylvania acquisition which you relay for the other acquisitions? How it would change our strategy for the potential acquisition target? You already mention in the last question that thought process will remain same for the new targets also.

**Anil Rai Gupta:** Frankly, we have gained a lot with this acquisition of Sylvania and most importantly is managing a large business with multiple geographies, a product category which was undergoing a change also in the last two or three years. I think the biggest learning that we have got out of it was the fact how to manage business who have global turmoil. That is something which gave us a lot of learning as well as experience as well as guts and courage for the future acquisitions as well. So, I think overall we were very satisfied with the last 8-9-years of journey of Sylvania. It is only because of the fact that we considered that in the next few years this industry will continue to undergo certain changes and which require increased levels of capital in terms of grown our requirements, technology will continue to change, market structurally will remain the way it is in Europe. So we decided that we now need to look at dispassionately the return on capital what it can generate for the shareholders. If you look at the transaction, I can say a one final learning for Havells apart from this overall managing large business is also the fact that how we can remain unemotional about businesses and also just see how business ultimately delivers for the shareholders. This is something which is a final learning for us during the last one or two years which I think is a great hurdle crossed in terms of mindsets of the overall management team which will definitely help us in future acquisitions as well.

**Navin Trivedi:** Sir, you mention that so many technologies and CAPEX was required for the next phase of Sylvania. So despite large part of the things were outsourcing for the business, you still think that technology was a hurdle for us?

**Anil Rai Gupta:** I think the technology if you see was the LED and this game is becoming more for bigger players. I think one of the considerations we had is how we get a value add partner for this

business. We could have also evaluated a financial partner but they could not have added the requisite strength to the business. So, I think that is the reason where we believe Feilo is a very appropriate partner for them. As a large Chinese lighting company, they are abreast with the latest LED changes and also they are looking for a very large project, particularly in Europe based on the energy payback structure. So, I think it will add very significant value to this platform. Also partly the reason that we have even accepted 18-20% in this business because there could be some meaningful play where we can play our part going forward.

**Navin Trivedi:** If I am not wrong, one of the key reasons was also to focus more in the domestic business. Do you think that there are areas where basically post the Sylvania this thing, we will see more aggression in those segments or there could be some inorganic thing in the domestic business, there can be some segments?

**Anil Rai Gupta:** First of all, I do not think Sylvania being a part of Havells had any restrictions in the domestic business. So we have kept the management teams very separate, they were all professionals both in India as well as abroad nor Sylvania was requiring additional capital input from Havells in the last few years, in fact, if you would have seen that we have constantly driven Sylvania debt down from a level of say about €100 million just about three years ago to down to about over €27 million in the last three years. So, it is a I think significant I would say independence by which Sylvania was running and which did not have any impact on the domestic business. So the domestic business would continue to look at opportunities the way it has looked in the last 10-years or so. So if you look at the last 10-years the growth has been quite good, things might have slowed down because of the market situation, but we believe the market situation will improve. So, domestic business would continue to offer those opportunities. It does not really change life in that fashion that much for us.

**Navin Trivedi:** Any cost elements which basically being rationalized from the standalone P&L also going ahead?

**Anil Rai Gupta:** Not any significant change.

**Navin Trivedi:** On the 20% stake that has remained in Sylvania, any formula which basically you have already agreed on the remaining stake?

**Anil Rai Gupta:** The current value will offer as a flow, but I think the other upside is available depending upon the fair market value of the business and how it will perform going forward?

**Navin Trivedi:** Will this change the prospect for the Havells Exim business also?

**Anil Rai Gupta:** Actually, Exim will continue to operate the way it is; actually Exim the same shareholding has been retained because Exim is an integral part of Sylvania operations, so it is just optics, otherwise it is the same business, nothing is going to change for Exim.

**Moderator:** Thank you. The next question is from the line of Mr. Achal Lohade. Please go ahead.

- Achal Lohade:** About the strategic cooperation agreement you have signed if you could throw some light on that?
- Rajiv Goel:** INESA... I think you might be aware now, is a parent company of Feilo and they are owned by Shanghai government; they have varied interest in industries including IoT and Smart Cities. So they believe and which we agree with them that there are large opportunities even in India on those lines. So what we have agreed is to explore and set up a task force which would report the opportunities in these areas and similarly they are also looking to show certain products from Havells for their projects in China or global markets. So, I would really put it more as exploration with a lot of optimism on both the sides there are opportunities to work together in a mutually gainful relationship.
- Achal Lohade:** Any specific potential the size we could...?
- Rajiv Goel:** Nothing, this is something very preliminary. I think it just captures the intent of both the parties to work together.
- Moderator:** Thank you. The next question is from the line of Jay Kakkad from Haitong Securities. Please go ahead.
- Jay Kakkad:** Two questions: One is what is the point of keeping 20% strategic stake in the business when you are seeing a lot of headwinds going forward in this business? Second is with the subsidiaries that you still hold in Sylvania, if they continue to make losses after 12-months, then will you shut them down?
- Anil Rai Gupta:** To your first part of the question I think we definitely see a lot of synergies by remaining partners with Feilo as well as INESA. As Rajiv ji has already told you that there is some sort of flow to the future exit value of Havells. So, you call it further headwinds. I think we definitely see as a big opportunity for Sylvania with Feilo coming in. For Sylvania as well as for the relationship with Havells we definitely see there will be better potential in the future.
- Rajiv Goel:** To your second question, actually, we believe they are already now recovering and Chile we already told you the business which we see has no potential, we have been discontinuing that. I think Brazil and Thailand are very strategic markets. So currently there is no thought process on the same. Looking at their business evolution there we believe challenge will not arise. In any case, I think that is something we will evaluate at the end of one or two years; we have a two-year window for the same.
- Jay Kakkad:** I believe you do not have the right to use the Sylvania brand. So you will have to ultimately either sell or get out of it, right?
- Rajiv Goel:** That is why I am saying; for the brand there is two plus two, the window is almost for four years. So if we cannot do in four years, then we cannot do in 40-years also. I am not looking at such a long time horizon for the same. We are not looking for four years frankly internally.

**Moderator:** Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

**Kashyap Pujara:** I just want to get some more clarity on the subsidiaries that we are retaining which is the Chile, Brazil, US and the Thailand business. So could you just elaborate there, I mean, I did not get the entire arrangement, like is it that the losses are there so hence it is not being sold as of now and once you basically get the losses out, Feilo will actually take it up and what is that brand thing that you just said that you have right for two plus two years, could you just give me the exact timeframe by when this is going to get monetized?

**Anil Rai Gupta:** As you are aware that we had losses in these subsidiaries. One option could have been that we transfer them today and take more than proportionate hit on the valuation. While we were confident that these are already in the swing to the positive territory, so we debated with them and we agreed together that the best outcome is not to include them in the current transaction; however, retain the right on both the sides to acquire once they become profitable which we are fairly confident of. Having said that, Chile is already closed and US being Havells brand, so will not be part of this transaction because they cannot use and do not want to use Havells brand which is I think our requirement as well. So it leaves only Thailand and Brazil which are very strategic markets for Sylvania as a brand. In that our agreement is that in the next two years when we are profitable we can transfer them back to Feilo at a valuation which will be a multiple of PAT. If you look at from a financial perspective, if we have enabled to turn them around in two years, our exposure could be anywhere between 12-15 million of what the current liabilities are there or we could gain up to 8 million which could be the transfer value of this business to them. So this is how you should look at the entire band available for the subsidiaries.

**Kashyap Pujara:** So basically like you said they are losing €11 million right now, right, which you are saying it will become profitable in the next few years? Your view is on valuations for Havells due to these for subsidiaries going out, could be at max \$15 million? If you swing it, then the gain could be in the range of \$8 million? You are talking of dollars, right, not euros.

**Anil Rai Gupta:** Perfect. Euros.

**Kashyap Pujara:** So this is the band, it is not going to be deviating much from it?

**Anil Rai Gupta:** Yes, that is right.

**Kashyap Pujara:** This 20% that is going to be due to us so basically the entire differential will be accommodated in that 20% that we have to take?

**Anil Rai Gupta:** That could be possible but obviously that is not the way we would like it, but Kashyap, you are right, one way you could look at that way as well, because they are independent transaction, let me just clarify, the timing could be very different.

**Kashyap Pujara:** Strategically, this is fantastic what you have done, clearly, the core business ROIC which are extremely healthy which now really start getting reflected and now that we have a war chest and we definitely have learning from the acquisition that we have done which went through own share of problems which we emerge very strongly from. What would be typically the size of acquisition you will scout at – would you ever think of going and making such a big move? Would you think of more smaller moves? What is your thought process in which region you would give as your priority, #1, #2, #3 if you were to get such a deal plateau with all three regions on it? I understand you can look at India, you can look at Africa. Second would be what would be the ticket sizes beyond which you would be hesitant to comment?

**Anil Rai Gupta:** I do not want to go very specific into this but all I can say is that as I said initially our focus will be for the next couple of years to look at the Indian market because we believe there is a lot of potential to look at more opportunities of expansion here. We will definitely look at emerging markets also. As far as the ticket size is concerned it has to be a fair balance between how much time we spend on integrating a new company unless and until it is very strategic, a small size company could also be very strategic as an acquisition just like the way we did Promptec this year and also the fact that to balance the risk of having a very large organization. So, I think this balancing will continue to do so. I think we will be in a very responsible company that way. Even if we have done a bold move for example like Sylvania, we have always tried to restrict our risk, the way we manage the risk and despite a very sluggish Europe which was there in Sylvania, we continue to reduce our debt levels in Sylvania over the last few years. So financially, we are conservative. We are an ambitious company also. So, all these balances we will continue to look at and will create opportunities.

**Kashyap Pujara:** In India, would you be looking at say geographical advantage or would you be looking at product categories?

**Anil Rai Gupta:** Three things which drive our strategy for acquisition is product, brand and distribution. So any of these three or all the three or two of the three should be met, otherwise we will not be looking at acquisition.

**Kashyap Pujara:** Considering that you are virtually going to be a cash machine throwing out, huge amount of cash going ahead, and with the kind of money that you already at hand, should we expect better higher dividend payouts going ahead?

**Anil Rai Gupta:** We say usually wait money will come. Let the closure be completed. Do not count your chickens before they hatch. Let us wait for the time. We are a high dividend paying company; already our policy ranges between 40% to 50% of the PAT. So, I think we continue to hold that and we will continue to look at more opportunities for expansion.

**Moderator:** Thank you. The next question is from the line of Ruchi Vora from CLSA. Please go ahead.



- Ruchi Vora:** If you take a step back can you just run us through what is the profit/loss for 1HFY16 for these four geographies that we are not selling? I understand the overall Sylvania loss was €7.7 million.
- Rajiv Goel:** Ruchi, we will talk about the calendar year because we cannot talk of the financial year; calendar year '15 we are looking at something like €13-odd million. So these are the tentative numbers because we have not closed December. Last calendar year we had around €11.2 million.
- Ruchi Vora:** You are saying the total loss for Sylvania which I can see it from your balance sheet is €11 million and the loss in these four geographies were €13 million, is it?
- Rajiv Goel:** No, we are talking 2015. If you look at 2014 it was €11 million.
- Ruchi Vora:** Sylvania numbers is what we have from your annual report, but I was more keen on is what was the loss in these four geographies that we are retaining?
- Rajiv Goel:** I am talking four countries. You can have a similar overall Sylvania number.
- Ruchi Vora:** So effectively, we sold off the profitable business as in these kind of cap the loss-making businesses because we felt that this is not the right time to kind of hive off these businesses?
- Rajiv Goel:** If we would have sold these businesses with the multiples that you would have generated, it would have been a far more, far lesser equity value. But because of our confidence of this turnaround which has already started happening in the last few months, we closed down one country which means losses are arrested there. So, all these reasons, we thought that it might be of much better outcome if we do not transfer these countries at the present moment.
- Ruchi Vora:** What is the roadmap in the other three geographies to get them on a profitable track or maybe EPS-neutral over the next couple of years, what are the specific steps we are going to take to make these geographies profitable?
- Anil Rai Gupta:** I think specific I would not be dwelling to that, Ruchi, but clearly, if you see both Brazil and Thailand if they take them together, they were almost like EBITDA-neutral in the last two months. I think largely it is driven by significant cost reduction as well as improvement in sales and the margins. So, I think it is an ongoing process. The whole reason we have carved them out because we have the expectation that we can contain the damages coming out of these countries. Otherwise, if we believe that we continue to lose these kinds of monies, the purpose would not have been served. So hopefully by next March quarter you would see that the numbers are sort of coming out very differently than in the past.
- Ruchi Vora:** Do we expect that in FY17 these businesses will be largely profitable or at least not make losses?

- Anil Rai Gupta:** I think that is the expectation. If that happens, in any case those businesses will be bought over by Feilo.
- Ruchi Vora:** When you kind of have 80-20 transaction, how will you do the accounting entries – will all the assets of Sylvania go for these four geographies?
- Rajesh Gupta:** The minority interest will be captured at Havells levels.
- Moderator:** Thank you. The next question is from the line of Rahul Gajare from Edelweiss. Please go ahead.
- Rahul Gajare:** A lot of products of Sylvania were getting manufactured out of your Indian and Chinese factories. Does that arrangement hold? If you can tell us what is the percentage of output which was going from Indian factories for Sylvania?
- Rajiv Goel:** Our factory was ranging between Rs.50 crores to Rs.70 crores depending upon the demand in various parts. First of all, this business was never on the basis of nomination. This was always a competitive business. If at all Neemrana factory was competitive, they used to source from us. We see no reason why they should not continue to source from us provided we are competitive. So I think it basically stands on that principle. Rs.50 crores to Rs.70 crores on the overall scheme of things is not...But I do not see much threat to that provided we are competitive.
- Rahul Gajare:** No-no, is there a scope for this to increase?
- Anil Rai Gupta:** Again, as I said, if you are competitive, then why not?
- Moderator:** Thank you. The next question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.
- Sanjeev Panda:** Regarding this deal, is there any liability that we could have in any case, in case whether we can improve the performance of this remaining 20%, any conditionalities there regarding this 20% that is remaining with us, any liability or any sort of thing that could come to us?
- Anil Rai Gupta:** There are no liabilities which will travel to us. We operate as a limited liability equity partner. In any case, irrespective of the outcome, our current valuation is assured.
- Sanjeev Panda:** The next question is the four countries we are talking about which we are trying to turn around, what are the kind of capital employed there?
- Anil Rai Gupta:** Let us say around 15 million.
- Moderator:** Thank you. The next question is from the line of Ankit Jain from Mirae Asset Management. Please go ahead.

- Ankit Jain:** Sir, in the Havells standalone business there is also export portion of around Rs.330 crores. Does any which way this sale is going to get impacted because of Sylvania hiving off?
- Rajiv Goel:** I just mention in the earlier discussion; we have a scout of around Rs.50 crores to Rs.70 crores out of the Rs.330 crores to Sylvania; however, that was always on a very competitive basis both in terms of quality and cost. If we continue to be competitive, there is a question, why should go away. So, I think it is just like any other business for us. In any case in the past if it is not linked to the equity ownership, so it will not be in the future. So, this will remain on whoever depending upon how competitive we are.
- Ankit Jain:** This remaining Rs.250-odd crores, we have been selling through Havells...?
- Anil Rai Gupta:** This is all Havells; our own export team, it is not riding on Sylvania infrastructure.
- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** I just needed one clarification; there was a loan on Havells Holdings which was guaranteed by the parent. So, what happens to that – do we have any commitment pending there now from Havells parent?
- Rajiv Goel:** That was already paid back in March. So there is no outstanding of guarantee from the parent company to Sylvania.
- Gunjan Prithyani:** Would it be possible for you to share any other numbers on the four geographies that have not been divested in terms of revenue and EBITDA?
- Rajiv Goel:** All the key numbers we have already shared; revenue frankly speaking has not much meaning in the current context. I think important thing is that the PAT loss we had and we need to be PAT positive going forward.
- Gunjan Prithyani:** PAT loss was €11 million, right?
- Rajiv Goel:** That is right.
- Moderator:** Thank you. The next question is from the line of Ruchi Vora from CLSA. Please go ahead.
- Ruchi Vora:** I had one follow on the four businesses which you retained again. Suppose if we get into PAT positive kind of situation, what is the thought process – are we definitely going to sell them to Feilo or...?
- Rajiv Goel:** Yes, because we have usage rights for the brand but the ownership remains with them.

**Ruchi Vora:** Let us say if we have been unfortunate to not get it on a profitable trajectory, then would we consider closing these businesses at some point and what would be the cost involved, I just wanted to understand your thought process?

**Anil Rai Gupta:** Ruchi, we are very clear that we want to turn them around. If we are not able to do, we will have discussion with them. If you look at this, brand is owned by them. So we cannot be very short-term in our thought process. If they believe that they want to run their business we can have another understanding with them at that point of time. But yes, clearly, in two years we need to exit this business, either we do through which way, I think we will have to decide what is the best interest of the partnership as well.

**Ruchi Vora:** So from your perspective it is more of two steps kind of a transaction wherein you hived off the profitable businesses, got a good valuation on that and then over a period of time you will also turn around the areas which are not profitable and kind of hive them off?

**Anil Rai Gupta:** Yes.

**Moderator:** Thank you. The next question is from the line of Taher Badshah from Motilal Oswal. Please go ahead.

**Taher Badshah:** While you highlighted around the growth opportunities that you have in India, if you can probably be a little more specific out of your existing lines of businesses where would you pursue growth? Second, given that you are running with standalone return on invested capital which is a very high, do you think there are businesses in India which can be run with as high return on capital?

**Anil Rai Gupta:** First part of your question, I think we will keep it for some other call; as I said, it will be related to Sylvania transaction and secondly yes, we have to find opportunities which can generate decent returns on capital whether it is same as that of Havells, currently Havells also has a long history which is resulted in this kind of a return on capital. It need not necessarily mean that we achieve the same if we go for new acquisition but that's the whole idea of our growth as well. But definitely it has to be much better or at least it should match our expectations on return on capital employed.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Achal Lohade for closing comments. Thank you and over to you sir.

**Achal Lohade:** Thank you everyone for participating on the call particularly the management for patiently answering all the questions. Sir would you like to make any closing remarks?

**Anil Rai Gupta:** No, thank you Achal, thank you so much everybody to join in and thank you to you for arranging this.

**Achal Lohade:** Thank you sir.



*JM Financial Institutional Securities  
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**Moderator:** Ladies and gentleman, on behalf of JM Financial Institutional, that concludes this conference.  
Thank you for joining us and you may now disconnect your lines.