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Dear Sir,

Sub: Con-call Transcript

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we herewith submit the Transcript for the Con-call held on 9th November 2021 on the unaudited financial results for the quarter and half year ended 30th September 2021.

This is for you information and records.

Thanking you

Yours faithfully,
For Pricol Limited

T.G.Thamizhanban
Company Secretary
ICSI M.No: F7897

Encl: as above





Pricol Limited
Q2 & H1 FY22 Conference Call
November 09, 2021

Management:

1. Mr. Vikram Mohan - Managing Director
2. Mr. P. M. Ganesh - Chief Executive Officer & Executive Director
3. Mr. Krishnamoorthy Pattabiraman - Chief Financial Officer
4. Mr. Siddharth Manoharan - Chief Strategy Officer



Pricol Limited
Q2 & H1 FY22 Conference Call
November 09, 2021

Moderator: Good evening ladies and gentlemen, I am Margaret the moderator for this conference. Welcome to the earnings conference call of Pricol Limited, hosted by Concept Investor Relations to discuss its Q2 & H1 FY22 results. We have with us today Mr. Vikram Mohan- Managing Director, Mr. P. M. Ganesh - Chief Executive Officer & Executive Director, Mr. Krishnamoorthy Pattabiraman - Chief Financial Officer and Mr. Siddharth Manoharan - Chief Strategy Officer.

At this moment, all participants are in the listen-only mode. Later, we will conduct the question and answer session. At that time if you have a question, please press '*' and '1' on your touch- tone telephone. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikram Mohan - Managing Director Thank you and over to you sir.

Vikram Mohan: Thank you Margaret. A very good evening and greetings of the festive season to one and all who have participated in the call. We welcome you to the earnings call for H1 of FY 2021-2022. Before I start the presentation and go through the details of the financials, some of the key highlights I would like to present to you. As many of you know, there is a massive global shortage of ICs, electronic components and LCD which is one of the main raw materials for your company Pricol. The automotive manufacturers also have been affected very badly by the chip shortage resulting in massive losses of production, which is having an impact on our company, and shortage of raw material for our company is also hampered our production. And our sales is significantly lower than planned numbers at the beginning of the year. While there have been significant cost increases on account of this shortage and also freight cost and commodity price increases, we have been able to recover a lot of these increases from our customers. But in the interest of goodwill and business continuity we have also absorbed some of these abnormal spikes, thereby resulting in an overall EBITDA reduction of about 2.5%.

We expect, not just us but industry experts also believe that the crisis is going to reach its peak in the third quarter, which is October, November and December, and the industry will see its lowest production in this quarter in recent times and slowly bounce back from January, and some degree of normalcy in supplies and supply chain of electronic components is only expected from September of 2022. So, difficult times will continue to exist with these



headwinds for the automotive industry as a whole, and more so for companies like Pricol, which are very heavily dependent on electronic parts, ICs and LCDs as its raw materials. This is a situation which is way beyond our control and our team is doing its best to mitigate the effects of these shortages, price surges and fast changing scenario to keep the momentum going and keep generating cash in the company.

You would be happy to note that one of the strategic objectives was to keep reducing our debt levels and I had in one of the earlier calls said that the senior management has taken a pledge to make the company term loan debt free and have only working capital borrowings, which we are still confident of doing even at the current level of sales and reduced cash flow in the next 12 to 15 months by March 2023 as promised.

Now for the good news, we have continued to invest very heavily in technology, which is keeping us ahead of the competition. We continue to invest between 4.5 to 4.8% of our sales on both product and process technology relentlessly in spite of the downturn in the industry and these investments are yielding dividends by increased RFQs, increased LOI from customers, and increased customer confidence, customer awards, which will result in increased business and growth rates in the future once the company comes back to normal.

With this introduction, I would like to go on to the presentation which has already been loaded onto the website and I hope all of you had a chance to see the same.

Revenue from operations over the previous period in FY21 in this quarter has seen a marginal 1% growth. Industry has overall seen a de-growth, whereas we have maintained our share of business and have remained flat for this period. Industry saw a huge rebound last year in the July to September period post COVID whilst there was no shortages. We have managed to maintain our share of business and maintain the same level of business as in the same period last year, and the total revenue being Rs. 387 crores and Rs. 389 crores respectively in the two quarters. And for the April to September quarter of this half year, we have obviously done much better because the first quarter of last fiscal year was a complete washout because of COVID. The first quarter of this fiscal year also, though not a washout, saw almost a month of closure of many of our plants, but we have still performed better, but much lower than our plans because of the shortages.

The profit and loss from operations also remain more or less the same between the last quarter of FY21 versus the last quarter of FY22. In spite of very-very steep price increases, we have still managed to control our costs to a great extent and maintain a decent cash flow from operations. The EBITDA as mentioned in the earlier call, we said we will see an erosion of 2 to 2.5% because of these price hikes, abnormal price hikes, some of which we will not be able to recover from the customers and the EBITDA of about 12.5% or 12.3% is reflective of the same, which in normal circumstances should be closer to 15%. We have generated a cash



profit of about Rs. 31 crores in this quarter against Rs. 44.9 crores in the same quarter in the prior period that also primarily contributed by a higher tax expense and a tax credit in the quarter in FY21. We have generated a free cash flow after CAPEX of about Rs. 26 crores this quarter, which has gone towards debt reduction, and even as late as in October after this H1, we are able to significantly reduce some more debt.

The long-term borrowing as on 30.09.2021 versus 31.03.2021 has seen a significant decrease. This number has further reduced as on today and we are hopeful of bringing this number down to a less than Rs. 100 crores by the end of this fiscal year. The working capital obviously has gone up as the sales of the company has increased but it is well within limits our inventory, stocks and our working capital management, receivables and payables.

On a consolidated basis, total revenue again has marginally grown. This has been driven by the growth of Pricol Wiping Systems Limited which has been a bounce back and a growth since last year, and the forecast is for that company to keep growing except in Q3 of this fiscal year where its customers are closed for about 50% of its time. So it will see a dip in its growth and then go back to a growth phase. Having said that, that company has no liabilities and is cash accruing. All our subsidiaries today are profitable and cash accruing to our bottom line with no liabilities in any of the subsidiaries.

Profit and loss from the overall continuing operations, we use the word continuing operations for this financial year because we are comparing it to last financial year, where for a small period we had some of our overseas assets prior to their sales. So, the profit and loss from continuing operations are pretty similar to what we saw in the same quarter of last year in spite of all the steep price increases. EBITDA again is on a similar level. The marginal increase in EBITDA for this quarter again, is the bump-up provided by Pricol Wiping Systems on its growth path. Similarly, cash profit for this quarter is about Rs. 34 crores on a consolidated basis and about Rs. 62 crores for the half year ended September, will continue to generate cash and this cash will be primarily used for CAPEX and retiring debt in the ensuing period.

Again, our borrowing at a consolidated level has gone down the long-term borrowings from about Rs. 245 crores to Rs. 142 crores and working capital borrowing stands at around Rs. 80 crores to fund the sales and the consolidated borrowings will continue to come down in a steady manner too. At a consolidated level, we are hopeful of reaching a debt of below Rs. 100 crores by March 2022, and become debt free by March, 2023. Some of the recent next-gen products that were launched in this quarter between July and September are some products for HMCL and TVS, these are just a few selection of product, next generation electronic clusters with Bluetooth connectivity etc. all developed in-house.

An entry that we have made into the Heavy Commercial Vehicle sector with multiple features with Tata Motors, a first for our company and the newly launched Gurkha of Force motors for



which even an appreciation letter was received for both of this from Tata Motors and Force Motors for support in developing these clusters. We have also started commence production of the oil pump for Polaris, which is an export customer. As I have mentioned that earlier calls, export continues to be a focus area for growth and export and deemed exports we would like it to be 20% of our turnover by 2025, for which we are on track.

Thank you very much for your patient hearing and thank you for the trust in our company even in this difficult times. This too shall pass, and we believe in the next few quarters the industry will come back stronger than where it was and what the difficulty it is going through currently. I have with me our colleague Mr. Ganesh, who is our CEO and Executive Director on the Board, Mr. Krishnamoorthy, Krish, who is our CFO and Mr. Siddharth, our Chief Strategy Officer and Head of Corporate Communication. They will be taking all your questions with regards to this call and I will pitch in wherever necessary. Thank you very much, and over to you Ganesh, Krishnamoorthy and Siddharth.

One request to the participants; In order to provide everyone a chance to ask questions, please restrict yourself to one question at a time when your turn comes up and please come back into the queue for the next question. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

Jyoti Singh: My question is what the current debt and how do you plan to trim it down? And what time would you target to become debt free?

Vikram Mohan: Madam, I had exactly mentioned that in my presentation. The current long-term debt is, as we speak is about Rs. 125 crores. It will become about less than Rs. 100 crores by March 2022. And as promised by March 2023 we expect to free off our entire long-term debts. Working capital will be a function of the movement of sales of the company and goods. And this is on a consolidated basis including all subsidiaries.

Jyoti Singh: Another question, how does the production schedule from the OEMs look like? And second question also, how is the semiconductor situation turning out from the supply side constraints easing out?

Vikram Mohan: Can I request you to restrict to one question and come back onto the queue as requested, ma'am? Thank you.

Moderator: The next question is from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepen Shankar: Firstly, wanted to understand, as two -wheeler industry is under pressure for growth and also, we see scooters are transitioning to electric vehicle. So how are we confident of



achieving these Rs. 2,300 crores kind of revenues by 2024? So, could you throw more light on the growth drivers which we expect to achieve this kind of revenue targets?

P M Ganesh: Two-wheeler unlike last year did not see a V-shape recovery. This quarter has been a little sluggish, that is why you find marginal de-growth in the two/three-wheeler segment. But as we have told during the previous calls also, Pricol has seen increasing their value on the cluster, thereby the value for cluster has been increasing. About three years back, we had 70% of our revenue coming from mechanical clusters. Now 70% of the total instrument is coming from electronic clusters and moving up the value chain, and most of them are moving into the high-end digital cluster called TFT clusters. We are also working with a number of EV manufacturers, including startup companies and thereby we are asking for high-end digital clusters along with the IOTs. So, Pricol is engaged, actively engaged rather with most of the EV makers today in India.

Deepan Shankar: Also under pump side, can you throw some light on growth drivers?

P M Ganesh: On the pump side actually, we have been migrating into the larger pumps as a part of the de-risking strategy, because again three years back we were primarily on to the smaller pumps used for two-wheelers. But in the last three years, we have been migrating steadily on the larger pumps as on the export front as well. Our first business, the Caterpillar, which is a very large water pump which will be exporting to US, in fact each pumps would weigh somewhere around 100 kgs. It is going to start the production from April 22 onwards. Similarly, we are focused on export on the larger pumps, where we do not see an EV disruption. So, the pump business will continue to grow.

Moderator: The next question is from the line of Venkatesh Subramanian from LogicTree Capital Advisors. Please go ahead.

Venkatesh Subramanian: The question is an extension of the previous one where we are looking at a top line of Rs. 2,400 crores by FY24. So, the two things that I wanted to ask. What kind of competitive advantage or strength that we have, especially when we are foraying into new segments and targeting EVs, what is it that is going to help us get there? And when can we start seeing the traction which is in our pursuit towards Rs. 2,400 crores top line? Which quarter should be the inflection point for us to start looking at quarterly run rates?

P M Ganesh: To answer your question is that Pricol has got its own in-house design and development capabilities. That has been the USP for Pricol. All the products whatever has been launched for the BSVI has been from Pricol local design and development. So, this is one of the key strengths for Pricol, thereby we are quite flexible in our design and development. Also, we have got our in-house capability on both the tools and also on the die-cast part. So thereby



we have got a large backward integration, which gives us the flexibility on the design and development; this is number one.

Second thing is, we are moving up the value chain as we explained to you, and more and more electronic clusters are coming into the fray. The value addition also has been increasing on the digital front. Like for example, some of the instruments whatever we have made in the recent times is almost like 5X to 7X times of the mechanical cluster. So, we are moving up on the value chain. And also, the new products like the telematics, which now we are launching with the two-wheelers and also with the three-wheeler front, gives us a lot of opportunity to grow on the IOT sales as well. And also on the larger pumps, the export business is growing. So, by 2025, 20% of our revenue is going to come out from the export business.

Venkatesh Subramanian: The other question is, where do you think that the turnaround quarter would be where we start looking at traction?

P M Ganesh: Actually Venkatesh, we have been continuously growing. If you see barring the market conditions, we have been steadily growing at a 15-20% year-on-year. So, there is no particular quarter where there is going to be an inflection point. So, we are going to continuously grow, and our RFQ pipeline has been quite healthy. If you see even during the last quarter, we have launched a few of the digital cluster for domestic customers and also export pumps.

Vikram Mohan: Venkatesh, in spite of de-growth of the market, we have been able to keep it flat. But realistically speaking, I can understand where you are coming from. This is not me speaking, but also with inputs from ACMA and other peers from the industry, we expect that inflection in the industry as a whole is not going to be earlier than that September of 2022.

Moderator: The next question is from the line of Nithin Deveriya from Augmen Catalyst. Please go ahead.

Nithin Deveriya: What was the contribution of exports to our top line for the current quarter?

P M Ganesh: About 10% of our revenue came from export during the last quarter.

Moderator: The next question is from the line of Palaniappan Meyyappan, an individual investor. Please go ahead.

Palaniappan Meyyappan: See there is a jump in the employee expenses by 13%. Can you throw some light on that?

Krishnamoorthy P: In the current quarter the increasing employee expenses is fully in line with the increase in operations. In addition to that, there are two other factors which contributed to the increase in the expenses. We had taken up the increase in salary, which was provided from July in the current year. This is towards the increment in salary, which was essential and also the variable compensation pay, which was taken up despite the challenging market conditions to



keep up the morale of the employees. Normal salary increases contributed to the predominant value of the increase. In addition to that, by the end of September we also did an actual valuation of our gratuity and termination benefits, which was the first time we did, and we decided to take that liability proportionately in the current quarter. So, these are the three reasons why there is an increase in employee cost. It is just in line with our operations.

Vikram Mohan: To further add to what Mr. Krishnamoorthy said. In FY21, which was last year, our employees also made a huge sacrifice by forfeiting their salary increases and going through a lot of hardships and supporting the company to recover from COVID and bounce back. So, we felt it was prudent to reward them amply to keep the morale up and to reward their growth, which kicked in from this year. So, it is an above normal increase to compensate for no increase or salary cuts for last year. That is also and that is in line with what the industry or our peers in the industry in electronic space has done and to reduce attrition.

Moderator: The next question is from the line of Venkatesh Subramanian from LogicTree Capital Advisors. Please go ahead.

Venkatesh Subramanian: My question is, since we are on a growth path and we also want to reduce our debt, what kind of growth capital or CAPEX would you need for the ensuing future for the next three years? And do you have any plans of doing a stake sale to raise some money or a QIP, something like that? Apart from that if at all the company needs growth capital, do you have any assets in terms of land or other things that you may want to monetize over the next couple of years?

Vikram Mohan: As mentioned in my prior calls, the last couple of quarter calls, we will be CAPEX light in FY22 and FY23, because we have created enough capacities and in our tech center to cater to growth for this period. But in the fag end of FY23, we will start a cycle of capital assets expansion to keep our growth drivers growing by which time we hope to be debt free and then have an unleveraged balance sheet, which will give us some leverage. We do have some investments planned for this year and next year. And what is the debt reduction plan is, net of these investments. So, after taking care of investments for the next 18 months or so, we will still be able to take care and tear down our debt and have a de-leveraged balance sheet. And basis of growth and some of the new products that we are working strategically to enter, basis quantum of funds required for the growth plan, there could be some equity or fundraising, but not before March 2023, by which time I am fairly confident that we will also have a completely de-leveraged balance sheet.

Moderator: The next question is from the line of Saket Saraogi, an individual investor. Please go ahead.

Saket Saraogi: In the presentation given by the company, there was mentioned that the company spends close to 4-5% of the revenue on R&D. So, could you help me understand like what percentage



of the sales that we are having today to the benefit of the R&D which we have done in the recent past? Maybe 2-3 years down the line, if we go back, the R&D expenses that company has made so today what kind of revenue the company has generated from those R&D expenses?

P M Ganesh:

We are seeing that there has been a major transformation from the BSIV to BSVI, starting April 2020. More than 60% of our revenue growth has come from the new product primarily starting from April 2020 onwards. In other words, 60% of the total sales is contributing to the new business. Some of the existing products has been replaced also by new products. So, that is the leverage that we got by investing in R&D to the extent of 4.5 to 5%.

Vikram Mohan:

I would like to further add to this. This year also nearly 25% of the products are new products and being in electronics and we are becoming less of a product company and more of a technology company. The pace of change of software and hardware is so rapid that to and we are the only Indian company that we proudly say in our area, where we are not dependent on anyone for technology or any sort of collaboration or any sort of royalty and that is what is giving us the edge and steadily helping us increase our market share. So, which is why I stressed, we will continue to spend this 4.5% our sales on those, I wouldn't call it R&D, I would call it Product and Process development rather than...we don't do pure R&D, like a research institution. We do product and process development to be completely ahead of the market and keep increasing our market share and be the market leader and maintain our lead. And that is what is going to keep our growth engine going ahead of the market. We are more of a system player than a product player, and that is the edge which we are getting from the customers and the customers are recognizing that value. Just to give you an emphasis, we have a total of 800 white collar people off which 320 are in Product and Process development or R&D and 60% of our total wage bill for staff goes towards product development, which is among the highest among Indian companies, which is something that is what the customers are seeing as value with Pricol.

Saket Saraogi:

Another question which I have from the past con call, if I am right, I have heard that you told that many of the Tata Motors' passenger cars the display system is being provided by our company. Was that right or interim anything mistake in this?

Vikram Mohan:

No, you are very right. About 80% of Tata Motors cars will have Pricol's, it is not just a display system. Now, it is a complete driver information system, it is not just a display because there is lot of sensors involved, electronics involved and about 80% or let's say 3 out of 4 Tata vehicles not just cars, 3 out of 4 Tata vehicles will be with Pricol products over the next few months.

Saket Saraogi:

Okay. That means on the commercial as well as the passenger vehicles?



- P M Ganesh:** Yes, it will be across all verticals of Tata Motors.
- Vikram Mohan:** In fact, we have been two years running as the best vendors to Tata Motors also.
- Saket Saraogi:** So then what percentage of our sales would be to Tata Motors as of today?
- P M Ganesh:** It is about 5% of our revenue comes from Tata Motors.
- Saket Saraogi:** As far as we have seen, Tata Motors is doing good nowadays. So, do you think, how much it can increase to in the next 2-4 years, if you can have any estimate or any idea?
- P M Ganesh:** See we are adding products to Tata Motors apart from driver information system. We are moving into other products as well. So, we expect maybe in the next 3-4 years, we should be about 7-8% of our total revenue will come from Tata Motors because our revenues from other customers are also steadily increasing.
- Moderator:** The next question is from the line of Ramanathan Subramanian from Varam Investments. Please go ahead.
- Ramanathan Subramanian:** My question is regarding the tax provision. You have made 11 point and odd crores for a profit of 22 and odd crores. Can throw some light on this sir?
- Krishnamoorthy P:** The effective tax rate before the deferred tax is around 56% and the deferred tax benefit, we have got around 21%. So, it is close to 35% is the net effective tax rate which is in line with the tax rates for listed companies above or around our turnover. So, this is not high. But when compared to the same quarter of last year, the tax provision is higher because last year we made losses year-to-date and therefore the tax provision was a benefit to the bottom line. Whereas this year we have made profit and therefore in terms of absolute value there is an increase in tax provision.
- Ramanathan Subramanian:** Last quarter we didn't have this kind of a provisioning, sir.
- Krishnamoorthy P:** Last year we had a loss. Last year, same quarter?
- Ramanathan Subramanian:** For June quarter I am asking, this year.
- Krishnamoorthy P:** The tax provision is made taking into account the projected profit for the full year so there is not much of change in terms percentage from last quarter of the current year to current quarter. It is always the same percentage.
- Moderator:** The next question is from the line of Saket Saraogi, an individual investor. Please go ahead.



- Saket Saraogi:** I have one question on the amortization of the intangibles. Based on charge of close to Rs. 22 crores last year and this year also we have a fixed charge, this charge like it continues or it is part of R&D expenses that we are amortizing?
- Vikram Mohan:** This is amortization of intangibles and goodwill which was rewritten when we did a reverse merger. So, this is a non-cash item. So, this is actually cash accruing to the balance sheet, Mr. Saket.
- Saket Saraogi:** So, this is congenital when, like is there any timeline till when it will be exhausted?
- Vikram Mohan:** Another 5 years if I remember correctly. So, it is a non-cash item much like depreciation.
- Saket Saraogi:** One more thing. Earlier the company was projecting a kind of a Rs. 1,500-1,600 crores of revenue this year, right? And due to the shortage related you told that there was some hit maybe on the sales. Going forward maybe 2-3 years down the line, what kind of revenue growth company is targeting?
- Vikram Mohan:** See, we should have in a normal basis done around Rs. 1,800 crores in this year. And I see our losing somewhere about Rs. 1,750-1,800 crores if things were normal and that was what predicted by the customer. But we will see a drop of at least 20-25% on account of the slowdown in the industry and the chip shortage. And we expect on a normal basis we would have continued to see the same level of growth going 1,800 going to about 2,200 next year. But as I said, we are in a very-very uncertain time until September we are not even able to predict for December, let alone next September. But like I said, this headwinds were expected to continue all the way until at least next September.
- Saket Saraogi:** So, sir like 2-3 year period down the line what kind of revenue growth the company is seeing, if you can't just share like...?
- Vikram Mohan:** I think, I need to be kind of Nostradamus to predict into the future. But we have a capacity to do for a product mix of anywhere between Rs. 2,200-Rs. 2,400 crores. We have an order pipeline to take us to Rs. 2,200 to Rs. 2,400 crores. We have the assets, both the people and the manufacturing assets to take us to that number and a pipeline. So, if industry comes back to normalcy, supply chain comes back to normalcy, demand comes back to normalcy, I think comfortably we should be on the path to do about, if things have been normal without any of this situation, we were anticipating about Rs. Rs. 1,800 crores of sales; Rs. 1,750-Rs. 1,800 this year, and Rs. 2,200 crores of sales next year. But obviously it is going to be about 25% lower than that and what we are going to be doing for FY23, I frankly don't know, and I don't want to talk about it because even the best of industry pundit's predictions are going wrong.
- Saket Saraogi:** Sir it feels like the market is going to slow down. That is more because of the chip shortage or because of demand lacking, two-wheeler part particularly?



- Vikram Mohan:** No, it is a chip shortage with slackening of demand due to economic conditions, it is a combination of both. And prices has gone through the roof, raw material prices, especially electronic parts, but also commodities. The impact of price for vehicle also gone up. But having said that, some vehicle makers have done very well like the TVS, some vehicle makers like a Hero has not done very well. So, it is not just a sectorial thing, there are certain players that have done extremely well and some players that have not done well.
- Moderator:** As there are no further questions from the participants, I now hand the conference over to Mr. Vikram Mohan for closing comments.
- Vikram Mohan:** I handover to head of corporate communications Siddharth to please place the closing comments.
- Siddharth Manoharan:** Thank you all the investor for participating in today's call. Looking forward to connecting with all of you once again in next quarter. And if you have any clarification, please do write to our investor relations email id and we will be happy to respond to you. Thank you once again.
- Moderator:** Thank you. On behalf of Concept Investor Relations that concludes this conference. Thank you for joining this conference call. If you have any further queries, please send an email to gaurav.g@conceptpr.com. Ladies and gentlemen, you may disconnect your lines now. Thank you.