



“Havells India Limited Q2 FY19 Earnings Conference Call”

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**MANAGEMENT: MR. ANIL RAI GUPTA – CHAIRMAN AND MANAGING
DIRECTOR
MR. RAJESH KUMAR GUPTA – WHOLE TIME
DIRECTOR AND GROUP CFO.
MR. RAJIV GOEL – EXECUTIVE DIRECTOR**

Moderator: Ladies and Gentlemen, Good Day and welcome to the Havells India Limited Q2 FY19 Earnings Conference Call hosted by SBICAP Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhineet Anand from SBICAP Securities. Thank you and over to you, sir.

Abhineet Anand: Thanks Stanford. Good evening everyone and welcome to the Second Quarter FY19 post result conference call of Havells Indian Limited. Today, we are represented in the management by Mr. Anil Rai Gupta – Chairman and Managing Director, Rajesh Kumar Gupta – Whole-Time Director and Group CFO and Mr. Rajiv Goel – Executive Director. I will hand over to the management now. Over to you, sir.

Anil Rai Gupta: Thank you Abhineet. Good evening everyone. First of all apologies for shifting this today, but we came to know that tomorrow is a holiday in Bombay and also our Board Meeting was at a later time today so I am sure you must have just received the information memorandum.

So again on the result side we are quite encouraged with the growth verticals at Havells across all the verticals. There is still a certain base effect in growth yet we believe that we are gaining brand traction and market share.

Lloyd had a muted quarter owing to adverse season, FOREX headwinds and channel inventory. We expect the recovery over the next six months especially in the next few months we should be having our new plant for manufacturing air conditioners also ready.

On the margins, the key influence is attributed to cables as last quarter margins were aided by inventory gains while this quarter has suffered due to wild volatility in commodity prices.

Overall to summarize I would say, the demand scenario seems to be improving and Havells is in a good position to derive maximum gains from the same.

Abhineet we can now proceed to Q&A.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: I have few questions on the room AC manufacturing plant. First one sir are you on target for this Q4 commissioning of the plant and more importantly sir will it be possible to comment on the extent of localization that you are aiming to bring in the first year of operation?

Anil Rai Gupta: I think the plant, Shrinidhi we believe we are on drive, the assembly should start in Q4 that is what we had highlighted. As far as localization is concerned you are also aware that in AC almost 30% to 40% still needs to be sort of imported but our endeavor would be that the maximum

would be produced either in-house or in source locally. I think these things will evolve. So maybe another quarter or so I think we will be able to better answer this question.

Shrinidhi Karlekar: Sir last one again on the plant, would it be possible in terms of ballpark how quick the ramp-up could be in terms of how much of the plant FY20 production could be from your new plant just ballpark number, just to understand this question is really in the context of this custom duties getting increased and Havells seems to be disproportionately affected so in that context?

Anil Rai Gupta: You are well aware of this industry Shrinidhi. The first season I think would still be assembled here and partly maybe imported as well. We believe in the third quarter from this Oct-Dec quarter onwards I think our localization will be significantly higher. I think after '19-20 I think we should be sourcing 60% to 70% in-house.

Moderator: The next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Sir two things – first on this Lloyd part of the business, so their capital employed has gone up versus the last quarterly numbers that have been disclosed so could you tell us if the inventory has gone up in the system now and how big will be the inventory? And secondly on the cables business if you can give us the underlying volume growth number to us sir?

Rajiv Goel: On the inventory side you are aware that there has been bit of slackness in the season. So the impact of what we see is also from the payment of creditor, this is not entirely attributed to the inventory and on the overall level, we believe the inventory is pretty much the same what we planned last year, but it had been largely impacted by the seasonality and the bit of slackness due to channel inventory as well as low season.

Anil Rai Gupta: And on the cable side, the volume growth is around 20% this quarter.

Moderator: The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: First question was on the switch gear business you have seen very high growth this quarter. This has been a segment which has been otherwise muted in the last few years, so is there any one-off attributable to this in terms of exports or something or do you see this as a trend change in terms of faster growth in the switch gear business?

Anil Rai Gupta: I would say there are a combination of factors. One the exports which is still a small part of the business, but it has shown improvement in this quarter. We also have industrial switch gear business where we see increased government demand coming in because of electrification projects. On the residential side, I would say that there is a slight improvement in the demand off-take and with completion of projects coming in. So the fourth aspect also is a little bit of base effect over last year. When we started out last year GST, we started out at 28% and initially there was some I would say inertia in the credit segment or the consumers to pick up materials. So I will say combination of factors but over a period of time it is definitely better than what it used to be one or two years before the demand scenario.

Arnab Mitra: Secondly on the ECD business, you are continuing to grow very strongly here now in your release you have kind of attributed some of it to water purifier and personal grooming, but my guess would be that these are still relatively small. So is it still that you are being able to grow the fans business extremely strongly to deliver this kind of 40% growth?

Anil Rai Gupta: Yes, I think what we have said is water purifier and personal grooming has started gaining a good traction amongst the consumer. So it gives us confidence that our entry into new product categories we aim that we have to be amongst the top players in the industry in the few years that continuous to remain strong with our investment in people, distribution and brand and product so I think that is showing a very positive result. But as you rightly said these are still very small part of the overall consumer business as well. So fans being the largest part of the business has to grow significantly to give this kind of growth. So fans has done very well, water heater has done well, appliances has come back on track in a big way and of course all these things put together has given us a decent growth and of course as I said it is a little bit of base effect as well.

Arnab Mitra: If I can squeeze in on margins, you have mentioned input cost inflation, so is this margin pressure not only in cables, but in general in the overall business in some of the division does it look more transient that there is a lag between taking price and input cost or should we see this as a year when margin expansion is going to be actually difficult given the input cost headwinds?

Anil Rai Gupta: Yes, I would say this particular quarter is mainly impacted by cables and wires, but generally speaking when the commodity prices are on a high it is difficult to expand margins, but at least we have seen our ability to maintain margins in all the other business and cables and wires because of particular quarter, but we have been able to maintain margins in all our business.

Moderator: The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: My first question is would you able to approximately quantify the inventory loss because of copper that we have had in cables and wires this quarter?

Anil Rai Gupta: So there is no inventory loss there is a time lag between the passing of the prices and suddenly when there is huge fluctuation, can result to correction happens and over a period of time if we look at a longer period then it is evens out, but this particular quarter there has been.... Generally speaking our cable margins and wire margins put together have been in the range of 15% to 17%. This particular quarter have come down to 14% so you can do a rough math and see how big the impact would have been.

Sonali Salgaonkar: Can we assume the steady state to be 15% to 17% and reverting back to the steady state over the coming quarters?

Anil Rai Gupta: Yes in the next couple of quarters it should come back to those levels.

- Sonali Salgaonkar:** Sir my second question is on the demand scenario currently, I mean considering that we have started with the festive season what kind of demand pick up, are you seeing demand pick up especially in the durables and appliances side?
- Anil Rai Gupta:** This season has started off well and I think this year Diwali has been a bit late, it is in the middle of November as compared to October last year, but at least we are seeing some early trends in things should be quite better this year.
- Moderator:** The next question is from the line of Kartik Mehta from IDFC Mutual Fund. Please go ahead.
- Kartik Mehta:** I have couple of questions on wires and cables and switch gear segment if you can just highlight what is the mix between industrial and residential in the switch gear?
- Anil Rai Gupta:** So as we have always maintained, primarily our business is around 70% residential and 30% industrial. So that is the breakup even now.
- Kartik Mehta:** But you said that the industrial picking up so I thought it should have gone up?
- Anil Rai Gupta:** It maybe 1% or 2%.
- Kartik Mehta:** How much be pure B2B business because I understand we have invested into B2B team and we are sort of started chasing these new verticals aggressively and what is the contribution of the B2B in total wires and cables as well as switch gears?
- Anil Rai Gupta:** Wires and cables, we have two business. One is purely industrial in nature the other is completely domestic. So I think B2B we have to see cutting across all product categories and not business services. So we have two aspects to B2B. One which goes into industrial kind of customers and one which goes into residential customers and because there is a more focus on these separate teams now so we are seeing faster than market increase in these segments because these are still very small for us. So definitely their share is increasing in the overall business, but it is still I would say a very small part of the overall business.
- Kartik Mehta:** So I was probably wondering that if the B2B pie is growing faster than otherwise.
- Anil Rai Gupta:** In general yes it is growing faster, but it does not really affect the overall growth in a big way.
- Kartik Mehta:** It would have some impact on the margin given a product mix?
- Anil Rai Gupta:** No. See the B2B does not change the product mix. For instance, even residential segment we say switch gear should come to the B2B.
- Kartik Mehta:** Margin mix would be slightly lower in a B2B?

- Rajiv Goel:** Not necessary. B2B does not mean you sell at a lower price. Your attendant costs are also much lower. See when you are doing a distribution business you also have to pay for the distribution cost, you mean in B2B those cost do not exist. So net-net do not have a very drastically different profile.
- Kartik Mehta:** Lastly on the margin front I could understand that you mentioned that there was a time lag in terms of passing of the prices in wires and cables in this quarter particularly, so eventually you do the readjustment of the pricing as per the input cost. So outlook on a margin if you can mention the 12% OPM this quarter where do you look at from the one year perspective?
- Anil Rai Gupta:** So we have said the current OPM if you see in cables and wires is 14% and since we have highlighted it generally hovers around between 15% to 17% and that is what we believe we should get back to in the next few quarter.
- Kartik Mehta:** So the blended margin should be above 13% for the rest of the year?
- Anil Rai Gupta:** That I think you will have to calculate depending on the growth for various businesses. So it all depends on a product mix, the growth in each segments. So we cannot really commit to a certain number.
- Moderator:** The next question is from the line of Achal Lohade from JM Financials. Please go ahead.
- Achal Lohade:** I just wanted to check if I look at the A&P spending it seems to have gone up quite meaningfully in the quarter especially with respect to Havells A&P which is up 66% almost 60 basis points Y-O-Y, is that also a reason for the slight margin compression so to say and how do you see the A&P from a year perspective, will it be a similar percentage of last year or do you think there could be increase specifically for Havells?
- Anil Rai Gupta:** I will say that A&P in Havells is about 3% if you look at this quarter and this will continue to remain like this. Last year it was 2.3% which was a special quarter because last year we had purposely cut down A&P during the GST transition period. You know we were also not very sure of the demand side. Otherwise, generally our levels have been around 3%.
- Achal Lohade:** And the second question I had was if I look at the capital employed for the ECD business it has increased Q-O-Q from 170 crores to 275 crores, if you could help us understand the reasoning is it largely to do with the seasonality because we do not see that happened in the last year?
- Anil Rai Gupta:** It is because of the as we said this is build-up of the Diwali season. Diwali was earlier last year so a lot of sales for this season had happened in the second quarter as well. It is a buildup of inventory for the Diwali season as well as the upcoming winter season for the water heaters and some heating products of the appliances. So it is a buildup of that and I think in number of days there is not really a major increase.
- Moderator:** The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: My first question is on Lloyd it will be good if you could just discuss the strategy because what we were expecting was while there is inventory in the channel, we are not expecting the margins to actually to get impacted. So if you could just talk about how should one look at Lloyd for the second half of the year in terms of both our margin trajectory and in terms of our expectation of growth for that business that is my question number one?

Rajiv Goel: So if you see the margin we said there are forex and definitely I think in this mute environment we have been conscious about what we pass on because industry also has not responded on the same. So the cost has gone up because of the forex headwinds while the pricing is not reflecting that. I think as we have put it in the commentary as well in the next six months we believe that situation should improve and we should be able to pass it on and the growth I think we continue to be I think fairly sanguine about the growth. There could be one quarter here and there where the challenges could be there, but overall I think this industry is very robust in terms of the demand pattern. And I think in terms of the brand we are gearing traction, we are opening new channels, there is a wider acceptance of Lloyd as part of Havells. So overall I think trajectory looks good but probably it cannot be commented on every quarter basis.

Pulkit Patni: Sir on lighting and fixtures, if I take out the EESL business the growth has been reasonably good. As I look at the second half how does the EESL business look there or should we expect that there is not going to be any meaningful contribution in the second half from that business as well?

Anil Rai Gupta: Yes I think you should assume that there will not be any meaningful contribution on the EESL front, but on the lighting side we are quite positive not only just in value and volume growth but also of the fact that our recognition as a top technology player in lighting that is increasing day by day with a lot of focus on new technologies like RGB lighting, monument lighting, façade lighting, with our focus on B2B we have segregated teams which not only look at various different product segments but also different kind of customer segments. So that has given a lot of focus. So entire customer profile of lighting is changing on the professional side, but of course on the consumer side we are going deeper and deeper into distribution. I think we are quite positive about lighting and there we have a huge scope to improve our perception in the minds of the consumers.

Pulkit Patni: And pricing also is holding up in the lighting segment generally?

Anil Rai Gupta: Generally, there is a big price erosion which has been happening in the lighting over the last few years and has continuing to happen. In fact if you really see our volume growth is more than 30% in lighting whereas the value growth is around 18% and despite having like that we are still holding up a margin. So overall we are quite satisfied with the strategy that we have been able to deploy in the lighting business.

Moderator: The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

- Naveen Trivedi:** My first question is on the lighting side just want to know the margin profile which has improved despite the weak revenue growth, can we expect that the ex-EESL, the margin trajectory will continue to show expansion?
- Anil Rai Gupta:** I would say that it is ranging between 27% to 30% it is a similar range that we have been expecting.
- Naveen Trivedi:** You said the EESL thing will not be there in FY19, so can we expect that going ahead also that kind of business will not be no more there for us?
- Anil Rai Gupta:** We have always looked at this business opportunistically. We have always maintained that we want to look at a decent margin business where technology is understood by the consumer. So I do not see that we can really comment upon that unless and until some new tenders come up where product as well as pricing is respected. So, we will have to look at it separately.
- Naveen Trivedi:** My last question is any one-off in the other expenses side like considering the growth which we have reported in the top-line, others expenses were quite muted so one off in the last year if that would be the case?
- Anil Rai Gupta:** Not really.
- Moderator:** The next question is from the line of Ashish Jain from Morgan Stanly. Please go ahead.
- Ashish Jain:** My question is again on the cables and wire margins. Now if we have not taken any inventory write-down, what has really driven this margin contraction because copper prices if my numbers are right were down sequentially this quarter, so which in turn have hurt us on our pricing front so which ideally should have taken some inventory write-down so I just want to understand what drove this cable and wire margin contraction?
- Rajiv Goel:** No, margin as we said had this not happened, it should have lined in our average which is around 15% to 17%. So I think we should have been maybe couple of percentage better.
- Ashish Jain:** So I am just trying to think what actually happen this quarter for the cable and wire margins if there was no inventory write-down?
- Anil Rai Gupta:** Let us say if we look at the cable margins are not that impacted by the pricing of copper with the domestic wire business. Domestic wire business you are rightly saying that it not only came down, but it has suddenly moved up at the end of this quarter as well. So there has been so much fluctuations that generally there is a time lag in passing it on to the consumer and when it comes down you have to immediately pass it on and some inventory write- downs were also happened so that all goes into the cogs of the business. That is why the domestic wire business which is the most stable business in terms of margins has actually been impacted in this quarter that is why we are very confident that it can come back.

- Ashish Jain:** Okay but have we now taken any price hike to offset the spurt in price which has happened towards the end of the quarter or not yet?
- Anil Rai Gupta:** That is a continuous process, in the next 10 to 15 days of any major commodity price increase or decrease it get passed on.
- Moderator:** The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.
- Harshit Kapadia:** Just wanted to dwell bit on cables and wires segment, so can you split in terms of revenue how has been in this quarter for cables and wires and since you have said that the residential segment is where you are seeing a pickup in terms of real estate can we expect the wire segment to grow much higher than what we have seen in the first two quarters?
- Anil Rai Gupta:** So in fact I would say it is around 50-50 at the present moment. The growth has been higher in the industrial side in this particular quarter, but also it is more because of the base effect because last year in underground cables suddenly there was I would say big inertia in terms of contractors and buyers buying because underground cables also came out as 28% GST. So second quarter was quite a muted quarter, but otherwise overall it is about 50-50.
- Harshit Kapadia:** So which are the sectors within cable that you are seeing growth if you can highlight?
- Anil Rai Gupta:** Largely we are seeing in infrastructure related. So lot of projects are getting on stream and the government focus also is helping in there. So largely infrastructure driven and yes some real estate project where developers have focused on completion so there also we are seeing the traction.
- Moderator:** The next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.
- Niket Shah:** Two questions first is just wanted to know given the fact that Voltas Beko also recently launched and recently fairly aggressive launch that they are going to do, so how do you get more shell space within the Tier-one markets within the AC as well as the non AC category as far as Lloyd is concerned, does it mean that we also have to give higher margins within these distribution channels?
- Anil Rai Gupta:** I think one of the biggest benefits of Lloyd or Havells coming into Lloyd has been the expansion of Lloyd into many new channels hitherto not there. So Lloyd, as we have explained earlier as well, was more of a distribution brand going into retail outlets, but now it does in all across categories of modern format retail, regional retails. So I feel that our shelf space has increased quite a bit in the last one year and it is growing every day. So I do not see that as a major challenge especially with Lloyd coming as a part of Havells there is a big confidence booster to the trade as well and hence I think we have to look at it from that point of view. Definitely new competition will continue to be there, and it has been there in the past and it will continue to be there.

Niket Shah: But on the margin side as far as distributor is concerned we are broadly in line with other peers what they give to them?

Anil Rai Gupta: Of course, yes.

Niket Shah: And the second question was on the Lloyd brand itself within the AC category we are very strong in Tier-2, Tier-3 market obviously your endeavor to get into Tier-1 market in a big way, how do you change the brand perception of Lloyd. We are not supposed to be known as a premium brand as such. So that was one question and I mean similar question to that what is now the pricing gap between Lloyd AC versus the Voltas AC on a like-to-like basis?

Anil Rai Gupta: I think it may be better for us not to say this might be better if you guys are so adapted to for doing channels check maybe better off if you do a channel check on that. There has been huge perception improvement in case of Lloyd. We spent heavily on brand building, our improvement of perception in the trade as well in the minds of consumers as well and that reflecting in the pricing as well. So it is not profit margins are increasing but we are constantly giving more and more product feature. So that the consumer perception as well as the service so the consumer perception keeps improving. So if we have gained a lot in the last one and half years this constantly has been proven by the research that we keep doing is the improvement in the perception in the minds of consumer for Lloyd.

Moderator: The next question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: Sir just wanted to know in Lloyd do we have any forex impact during the quarter and if yes what was that number?

Rajiv Goel: This was largely in our cogs because whatever we received this has become part of the inventory cost. So I think it has been around let say 5% to 6% the cost of the inventory has gone up because of that. And I think this ultimately as we said will get adjusted over the next six months.

Abhineet Anand: So 5% to 6% is of the sales.

Rajiv Goel: No I am saying the inventory cost has gone up because the dollar has appreciated by that much in the quarter.

Abhineet Anand: So the cogs if I adjust by 5% to 6% that would be the number.

Rajiv Goel: No I do not think that the way you can do it, but largely it is fair to say there has been a substantial forex fluctuation on the cost part. So I do not think you can just compute it by that and maybe we can then take it offline if you require.

Moderator: The next question is from the line of Nayan Parakh from IIFL. Please go ahead.

Nayan Parakh: Could you share your outlooks on the fans market specifically given the hike that we have seen in the quarter, has the market also grown in line or we have significantly gain market share during the current quarter and what is the outlook going forward?

Anil Rai Gupta: We believe that we have gained market share and that is right now we do not have any research results, but it is from the channels discussion that we have had. So we seem to have gain market share. I think as we have been saying in the past also there is a lot of focus on expanding models which we are behooving the customer perception for the Havells brand. I guess our focus on product brand and distribution has definitely helped us and despite having us having the largest market share for premium fans I think we have gained market share there as well.

Nayan Parakh: Regarding coming back to the lighting segment you had indicated the focus has been more on increasing the professional segment, but we are also seeing significant price dilution do you feel that there are margin headwinds in the current quarter because of that or because of our strategy of changing product mix we can offset that?

Anil Rai Gupta: As I said earlier our strategy on lighting has been quite improving the perception based on product and technology. In fact, we have been improving margins, so I do not see any reasons why we should be worried about price erosion in this. We have grown 18% in this business our volume growth has been more than 30% and the margins are improving. So we are quite hopeful about this business.

Nayan Parakh: Just a data point question what would be the EESL sales for FY18 for the full year?

Anil Rai Gupta: Around 130 crore.

Moderator: The next question is from the line of Akshen Thakkar from Fidelity. Please go ahead.

Akshay Thakar: My question was not to do with the quarter, was just on a slightly longer horizon, if we look at employee cost to sales it has gone from 4% to 8% over seven, eight years and we understand where this is coming from building team, you are getting into newer products, Lloyd would have added to that, but just generally when you are looking at how employee cost are or your manpower strength is, is there scope for this to go up more or you are satisfied with they are because over a period of time that could add to margins right?

Anil Rai Gupta: So I think as you rightly said that over a last few years we have been investing heavily on building capability. This is again to build a long term sustainable business for all product categories and of course new product categories are constantly being added. So that comes more of an investment. So I feel that this is a healthy level that we shall continue that in the future. So over a period of time we will see this being the normal levels.

Akshay Thakar: One other question when you are talking about getting a lot of sourcing for Lloyd etc. in house, what does that imply in terms of capex for the company over the next two or three years?

- Anil Rai Gupta:** This year overall, we have grown our overall capex will be about 500 crore out of this 325 crore based on the Lloyd plant, but once this plant comes on stream I think overall we will be in the range of 200-250 crores overall every year.
- Moderator:** The next question is from the line of Ankit Jain from Mirae Asset. Please go ahead.
- Ankit Jain:** So just wanted to understand does this recent liquidity by NBFC and all I mean are you seeing any sort of impact on the channel financing which you do avail to the distribution partner?
- Anil Rai Gupta:** Not really we have not seen any significant impact. We have got very large banks who are supporting this we have no exposure to NBFC in our funding sources
- Ankit Jain:** Most of your distribution partner do a bit channel financing from bank?
- Anil Rai Gupta:** Our channel financing plan is driven by the banks and if you are asking the consumer channel financing or consumer financing. So whatever we do is with the banks only.
- Moderator:** The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.
- Charanjit Singh:** Sir you have highlighted about this professional lighting space. If you can give us some more color in terms of like who are the kind of customers or is it tender based market where we are competing within this market and how is the margin profile in professional lighting?
- Anil Rai Gupta:** There is a lot of color in professional lighting. Professional lighting is almost I would say 40% of our business and we have been in this business for last 15 years. So when you are in lighting you want to be both in professional as well as consumers. Some companies choose to keep more in consumers but right from the beginning when we entered lighting we have been very focused on professional lighting as a business. Initially because of the strength of the company we started more on the government size and the infrastructure size, but over the last two or three years they have built capability to focus on all customer segments whether it is government whether it is large office complex, hotels, façade lighting. We built capability in the last few years and when you compete against the likes of Philip and Wipro and Bajaj and Crompton in this space, but we have dedicated teams separately for professional lighting. You asked about margin profile and generally speaking it is very similar to the consumer side of the business. So when we see a blended margin we do not see much difference between consumer as well as professionals.
- Charanjit Singh:** On the ECD space we have been issuing pretty strong growth over the last couple of quarters and from Q3, Q4 onwards that 400 crore run rate will start hitting and do you see that the growth can be sustained in this segment and which categories will drive the growth going forward?
- Anil Rai Gupta:** I think you cannot really extrapolate the first quarter, second quarter into a third quarter or fourth quarter because there was a big impact of GST in the consumer durable segment. If you see the major impact in the first quarter came from the ECD segment last year and even in this particular quarter there was a base effect. So I think overall we are quite hopeful because of our whatever

we are doing in the ECD segment, new product categories our expansion into channels and more and more models coming into each product category. It is not that it will have a very different growth profile as compared to other businesses.

Moderator: The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: My question is on the ecommerce strategy of Havells. Sir correct me if I am wrong but the general perception that we have is that the Havells is not so strong in the ecommerce channel compared to the way you are in the traditional channel and with Lloyd and having a significant appliances exposure. These are categories where something where ecommerce channel can have a significant impact. Sir in that context I wanted to understand how do you see this channel and how do you plan to improve your presence in that channel?

Anil Rai Gupta: As far as channel strategy is concerned we believe in omnipresence and this is something which is started coming in the last two or three years for Havells and yes traditionally we were more focused on the traditional offline channel, but in last three years we have invested heavily into building teams which focus on all kind of channels whether it is modern format, regional retail online. Our strategy has also been that we are a very channel friendly organization in terms of the fact that we look at their long term sustainable business with the company rather than very short term measures and we have always refrain from any channels whether it is online or any other channel which focuses on a very fast growth and undercutting the other channels as well. So I think our online strategy has been very prudent. Today we are present in all online platforms, but we do not give any preference to any channels and hence I would say this will be more of an organic growth rather than a kind of **(Inaudible) 41:30** growth in any channel but we are growing every year very fast in the online channels but still maintaining our overall channel philosophy in online channel as well.

Moderator: The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: My first question was just to switch gear, just coming back to the growth factors that you talked about. You mentioned that residential segments has seen slight improvement in demand is it any way point out towards improvement in the housing cycle and should that imply that though the growth rate in second half will normalize in the full year basis the growth rate for this segment could move more favorably towards low to mid-teens kind of profile now?

Anil Rai Gupta: Well first of all the first part of your question yes, it is moving favorably. When we see one year or two year before practically there was no new builds coming up. Today we can see some new builds coming, project closures as well are also happening. So there is definitely uptake in the demand in the residential sector. I think I would not give any numbers at the present, let us see one or two more quarter how we fare, how this thing continue because as I said there are lot of project closures. Hopefully the demand should continue to remain. Today in the residential sector we do not see an investor committee coming in investing into buying houses. So it is basically pure demand so that hopefully should given the demographic this should sustain, but let us see over the next few quarters.

- Latika Chopra:** My second question was in Lloyd, you mentioned that next six months one should see improving trends and there was mention of expecting that the market will also take up prices, is your price increase decision depended on lot on how the other take price increases considering the push, the cost push for you will be higher on a relative basis how are you thinking about it?
- Anil Rai Gupta:** I think the pricing is a lot depended upon the brand perception how the channels perceives you, how the competition is behaving as well as the cost of products. So all put together I would say is formula which cannot be really be explained on a phone call right away.
- Latika Chopra:** Lastly your cash reserves building out any thoughts on inorganic strategy for you?
- Anil Rai Gupta:** I would say that company will remain open on inorganic opportunities. Today we have quite a hands full both on Lloyd as well as Havells organic growth, but we have always remain positive to look at any new opportunities.
- Moderator:** The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.
- Nishit jalan:** My question is on the lighting part especially the EESL business if I look at last year the contribution margin in EESL was about 7%. This year we have not seen any business in EESL, do you think the pricing has come up some significantly that it is not making any sense to get into the EESL business or do you think that the EESL business itself has kind of come down so significantly that there is no business in the market?
- Anil Rai Gupta:** We were in a small part of the EESL business. So we were not in the commoditized business we are more into street lights business and yes the numbers of tenders which are coming out for street light has reduced over a period of time, initially there was a huge push. In government tenders business there is sometimes it is so depended on the price that unless and until the product features are fully understood it is we try and refrain away from that. So, yes at this point in time it is a combination of both the demand being a bit less as compared to what it was a year ago as well as pricing.
- Nishit Jalan:** Sir my second question is on Lloyd now since we are starting our own manufacturing facilities, so apart from getting a better control over your product quality and all it should give you some cost benefit as well, so what kind of margin benefit or what kind of reduction in cost you see because of start in house manufacturing facility because your EBITDA margin right now in the Lloyd business are below the other peers in the industry.
- Anil Rai Gupta:** Yes, I think definitely the whole idea of putting our plant was that we will see improvement in the margin, but this is something which will develop over a period of time. We have always maintained that we need to look at Lloyd as a long-term trade. We continue to hope that we will continue to improve margins every year in Lloyd partly because of the brand perception and also because of our focus on manufacturing in house. But this is again as I said has to be looked at over a period of time.

- Moderator:** The next question from the line of Kunal Sheth from B&K Securities. Please go ahead.
- Kunal Sheth:** Sir, in lighting segment you had mentioned that we continue to see price erosion, so is this a natural price erosion we have seen because of increase in volumes or is there some pricing action that we are seeing in the market from any of the competitors?
- Anil Rai Gupta:** No it is a cost based decision because the LED is going down.
- Kunal Sheth:** So we have not seen any pricing action from any of the competitors?
- Anil Rai Gupta:** There is pricing action by everybody because the cost is coming down.
- Kunal Sheth:** That is but not otherwise.
- Anil Rai Gupta:** Not otherwise means.
- Kunal Sheth:** As in any price what that you are seeing in lighting from any of the competitors.
- Anil Rai Gupta:** In the industry there are so many players in this segment of industry at least.
- Kunal Sheth:** What I meant was from the larger players?
- Anil Rai Gupta:** We compete, it does not seem like a price [inaudible].
- Kunal Sheth:** My second question is on presentation made by you last year, increase in the contribution of B2B was one of the strategies that we will look at to scale up in terms of growth, so your commentary in the call you said that B2B contribution remain similar to what is last year. So when can we see B2B contribution going up significantly in the business or will it be in the same range because the overall growth is also robust?
- Anil Rai Gupta:** I think overall growth which has been robust has also contributed by a higher share of B2B, but B2B is still a newer play for Havells in a sense that it is a focus activity now. Hence it is contributing more but all the factors put together in a new channel B2B are giving the kind of growth that we are witnessing otherwise things would have been like the industry. So we are definitely growing faster than the industry which clearly indicates that our initiatives on deeper penetration into semi urban, rural, B2B focus, NFR focus, and online focus, all these things are contributing overall.
- Moderator:** The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.
- Pulkit Singhal:** Just wanted to check with you on the distribution initiatives, if you can please elaborate I mean where we are currently, I mean in terms of some numbers and what is the kind of potential you see over the next three to five years in terms of distribution?

- Anil Rai Gupta:** So I cannot give you any numbers at this stage, but I would say that in the market like India there is always remain a huge potential to grow the distribution and our entire focus stays there how we go deeper through more and more retailers now in the chain through distribution, through expansion through our Sampark Scheme. So there is a huge focus going on and I believe that it will continue to remain for many years.
- Pulkit Singhal:** Any way of figuring out excluding the distribution expansion what could have the growth on a like-to-like basis?
- Anil Rai Gupta:** Why go into all these things let be happy with growth.
- Moderator:** Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Abhineet Anand from SBICAP Securities for closing comments.
- Abhineet Anand:** I would like to thank the management of Havells which gave opportunity to SBICAPS for this opportunity to host Q2 Call. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of SBICAP Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.