



“Havells India Limited Q4 FY 2019 Post Results Conference
Call”

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**MODERATOR: MR. JAY KAKKAD -- AMBIT CAPITAL PRIVATE
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Moderator: Ladies and Gentlemen, Good Day, and Welcome to Havells India Limited Q4 FY 2019 Post Results Conference Call hosted by Ambit Capital Private Limited. As a reminder, all participant lines will be in a listen-only mode. And there will be an opportunity for you to ask a question 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 Mr. Jay Kakkad from Ambit Capital. Thank you and over to you, Sir!

Jay Kakkad: Thank you, Aman. Good Morning, Ladies and Gentlemen. On behalf of Ambit Capital, we welcome you all to the Q4 Earnings Call of Havells India Limited. We have with us, Mr. Ameet Gupta -- Whole-Time Director; Mr. Rajiv Goel -- Director (Finance) and Group CFO; and Mr. Rajiv Goel -- Executive Director. Now, I hand over the call to the management for their opening comments post which we can set the floor open for Q&A. Thank you and over to you, sir.

Ameet Gupta: Thank you Jay. Thank you, Aman. Good Afternoon, everyone. The financial results and the related commentary would have been already received by you and the growth in the quarter four has been muted, owing to the lower consumer demand, liquidity crunch, delayed summers and lower infrastructure spend due to impending elections.

Havells Electrical consumer durables and Lloyd were impacted by delayed summers. Lighting in particular, the professional part of the Lighting was impacted by the deferment in projects awaiting political clarity. Our margins are broadly stabled, Lloyd could not pass on entire cost escalation due to high-competitive intensity and weak market environment.

However, we are optimistic on the year ahead, as we hope that the political stability would bring in the requisite investment to drive economy momentum. We are well prepared to capitalize on the emerging opportunities.

So, now, we would open it for the questions, and we can take it from there.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Yes, so my first question is on the demand pattern you did read out the key reasons why the volume off take was softer. But overall are you seeing the end market demand being softer or these are more temporary adjustments to demand because of seasonal and stocking adjustments for dealer distributors. Because of the lot of consumer companies are highlighting cracks in the consumption patterns itself, so would you perceive these has more of medium-term risk or short term quarterly abrasion in terms of external environment?

Ameet Gupta: So, certainly, there has been suppression of demand from the consumer side since December. It is probably going to a lot of factors including NBFC situation in the country as well as the

elections happening and overall the sentiments were not great from the consumer side which ultimately also led to some destocking at the dealer and the trade level as well. So, it is a double whammy to that extent that the consumer demand is lower so the stock levels in the market has also gone down. And I mean, we are seeing a similar kind of a situation in April and May, because nothing changed on the ground after that. But we certainly hope that once this whole situation stabilizes, that we should start seeing demand coming back in coming months.

Renu Baid: Given the seasonal pattern, which impacted 4Q numbers, you are not seeing that changing and positively driving growth in the 1Q?

Ameet Gupta: So, what we mentioned was there are multiple factors. One factor which was there was about the delayed summer, which of course has come back strongly in April and May. So, though, that particular piece of it has come back and the demand has come up for the consumer durables and Lloyd for that particular thing.

Renu Baid: Sure. Second question would be overall last quarter also we had the headwinds of actually passing on the price increases, cost increase to consumers, and now we are seeing that margins continue to remain weak. So, how should we read into the ability to take price hikes, even if demand momentum has been soft? So, will that mean that going forward next year margin headwinds will continue? Or one should see those 13% margins coming back for the company?

Ameet Gupta: So, if you see that ex-Lloyd the rest of the segments, the margins are pretty stable the only difference from the last year to this year is primarily due to the lower volume in this quarter. So, there is some under absorption of cost to that extent. So, they are not hugely different than the previous years. For Lloyd, there has been certainly a challenge of the demand being weak and huge competitive intensity in the market because of the weak sales happening. And also, because there was a lot of changes happening in terms of custom duty going up, dollar going up and probably our increases were a little bit more than the competition. But since, we have now set up our own plant, in the coming months, these things should not affect us in the long-term.

Moderator: Thank you. The next question is from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: First question is on the slightly long-term basis. I mean it has been two years since we acquired Lloyd. Can you just give us a sense of what has been the success so far in terms of increasing the contribution of non-AC portfolio of the business? And as far as the reach and distribution is concerned, what has been the progress so far?

Rajiv Goel: So, on Lloyd, the portfolio expansion is still ongoing. I would claim that AC continues to be the key contributor of the business, known that the LED TV market itself has several challenges in the last year. But I think, our work in terms of getting more products on board particularly refrigerator hopefully by the end of this year or early next year. I think, that will be a key addition to our portfolio that will carry something which you always knew will not happen in couple of year that is something a journey which is slightly longer term. But particularly on the distribution side and fortification of the management, both at the central as well as the regional level, and

there is a significant amount of work that has been done. In fact it is reflected, you would see even in our financials, which is the investment we have made on the people, as well as the brand which is a significant investment. We almost out spend our peers by 2x in A&P, because we are building these things for a long-term, we are not looking at a quarter or a short term approach on the same. In terms of distribution, I hope if you go around the market you would observe we are available in almost all the leading retail chains you see which is a fairly large part of this kind of industry. So, yes, and also I think it improves our brand imagery with the kind of consumer which comes with large retail chains. You see it is fairly sort of up market. So, these changes which we had anticipated when we acquired and I will say in two years, I think the considerable amount of work has been done on the same. Despite, you see headwinds that nobody anticipated two years back in this industry, particularly in this year. So, I think, the quality being improvement in the Lloyd is fairly reassuring and we do believe and that in couple of years it be reflected in the numbers as well.

Chirag Shah: Sure. Just continuing on that, in terms of just the quality of the distribution network, we had some rationalization of the dealer network earlier. Is that exercise over and incrementally, what is the kind of additions that we are looking at in terms of the distribution network and where are we on that?

Rajiv Goel: So, I think this is an ongoing process (a) we never looked at consolidation we always looked at addition of the distribution. You see because it was fairly conservative when we acquired this business, so we want to take everybody along, so I do not know whether we are giving the impression that you want to exclude few streams and want to include. I think, the opportunity which present itself in this industry and where Lloyd was, I think that is sort of humongous. And so we are looking both in terms of more deeper penetration, we see by distribution. And also, the segment, which this industry particularly is fairly dominant, which is as you said the large retail chains. So, I think, the work is happening on both the sides and I think, this is something which is an ongoing process. The heartening news is that we have been fairly successful in that. In fact sometimes, beyond our own internal assumption, expectations, the way we have been sort of lapped up both by the consumers as were the change, I think it is fairly heartening. And I think, the true advantage of that hopefully will unfold in next few years.

Chirag Shah: Sure. And just one last question on the Lighting business margins, we have held up on margins quite well in the last few quarters in spite of the peer group facing a lot of margin pressure in the Lighting business. There has been some correction in the margins in Q4. Do you think it is more seasonal? Or is there some correction that we are seeing in the margins for the Lighting business?

Ameet Gupta: Actually, it is not really deep in that sense. There has been a little bit of a mix change in this particular quarter there has been little bit more sales on the solar side rather than the consumer part of the business. So, it is a little bit of re-adjustments but I do not think it would continue like this, margin should improve from here.

Moderator: Thank you. The next question is from the line of Venu Gopal Garee from Bernstein. Please go ahead.

Venu Gopal Garee: Sorry, I actually missed the opening remarks from you, so I hope, I would not end up repeating some of the things you might have answered. So, firstly on NBFC sir, just wanted to understand. The sort of destocking or other restocking from the dealers is more a function of them not wanting to finance themselves too much because of the NBFC issues and probably some liquidity squeeze out there? Or it will more in response to retail itself, demand itself sort of faltering we should probably moderate the stocking level. So, NBFC impacting dealers financing or NBFC is actually impacting demand? It is first question.

Ameet Gupta: We feel that the NBFC is actually impacting the consumers. The retail and the trade is just basically being a little bit more cautious because the demand is not coming from the consumer side. So, they are just being a little bit more rational and controlling their stock levels as well.

Rajiv Goel: And Venu, there would be some impact on SME as well, the trading community. But I think in a way, I think we have been very pragmatic and I think, you also had to add particularly this quarter a bit of a political uncertainty as well. You would appreciate that a lot of customers when we consumer is not just a retail guy, which is also the corporation, the SME's who were consumers in particularly in Q4. So, there is a mix everything and NBFC, see the other challenges (a) they are not standing their limit, but a lot of NBFC are going back to their customer and asking the money back. You see, so there is a withdrawal of money from the system, you see, which is maybe increasing liquidity for these large banks or PSU as an all, but that is not helping the overall lubrication in the system. So, I think, it is a mix of everything. But yes, I think it is definitely driven largely by the consumer also. But when people feel there will be a slow down I think you will appreciate this, traders ultimately are arbitrageurs as well. There is something they will pick up maybe when this year demand coming back. But NBFC crisis has only worsen the situation in my view, so you cannot take that away from the equation.

Venu Gopal Garee: I think it make sense. My second question is again a bit linked to the pre-election and how things pan out in certain orders which actually are linked to government projects, it could be certain other project even real estate maybe which is government sponsored. So, in your segments, Switchgear, Lighting I would say and Cables, is there a way to attribute actually how much would be linked to a government or related activity? Or is that direct government orders will be which may still go through a distribution channel, something like rural electrification or where you might have seen some slowdown but it could rebound back?

Ameet Gupta: So, clearly, there has been a slow down and we can feel that because especially the industrial part of the business was more impacted in the last quarter. But we actually do not deal with the government agencies directly and it is always through the trade. So, we do to really know the exact breakup of how much of it would have been because of that. But certainly, the government sector was a major consumer for some of the industrial segments and it was impacted quite strongly in the last quarters.

Moderator: Thank you. The next question is from the line of Sonali Solgaonkar from Jefferies India. Please go ahead.

Sonali Solgaonkar: Sir, my first question is regarding Lloyds. Sir, post the commissioning of our plant for local manufacturing in Lloyds, what are the kind of margin benefits that you expect to accrue over the coming years? And currently, what would be the in-house production as a percentage in the Lloyds?

Ameet Gupta: So, Sonali right now the plant has just about commissioned and we are in the process of doing SKD assemblies, and it is not a full backward integrated right now, it would happen in the next couple of months. But by that time the season would be over for Air Conditioners. So, the real benefit of having the plant would actually start accruing from the next year only not this year. So, it is a little bit early right now to completely judge, how much benefit would be there, because since the time we decided on setting up the plant. There has been a lot of moving parts as far as costing is concerned in Air Conditioner market because there have been complete change of the efficiency ratings by the government. There has been change in the customs duty, there is a lot of components which are still imported and there has been an increase in the dollar rate. So, it is a combination of a many things. So, once we stabilized and we really know what is the final cost of our when everything is ready, we would know the things better. So, that is the current situation. What was the second question?

Sonali Solgaonkar: Sir, currently what is the proportion of in-house production in Lloyds?

Ameet Gupta: So, right now everything is sourced, but once this factory would be up and running, we would assume that in the first year we would probably be having around 60% to 65% of the production in-house.

Sonali Solgaonkar: Sure. Sir, and secondly, in your opening comments you mentioned that summer has come back strongly in April and May, are there any price hikes you have taken on ACs or probably planning to take in the coming months?

Ameet Gupta: There has been a delay in increasing pricing in Air Conditioners for some time. And we have been able to pass on a little bit of an increase, but it is still like I said the industry is right now quite tough and people are all having a lot of inventory piled up from the previous times. So, it is taking its own time in being able to realize the proper price from the market.

Sonali Solgaonkar: Sure, Sir. And lastly, CAPEX guidance if any?

Ameet Gupta: So, next year CAPEX plan is around Rs. 600 crores, most of it is on expanding capacities of our existing businesses which is almost in every segment, but mainly in the Wires and Cables also into Switchgears and some remaining investment in the Lloyd plant.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, my first question is on Lighting revenue growth. So, this quarter we have seen fairly strong growth from EESL and government sector? And if we remove that component it appears that

the B2C segment has not really done all that well, what is that on account of? And do you think that the overall growth in Lighting sector over the next couple of years could moderate a bit?

Management: So, Aditya, you see Lighting also includes a lot of this Profession Lighting which is 50% of the business. And if you recall at the comments at the commencement, is that, their businesses obviously suffered because of the political clarity. And all of these orders come directly indirectly from the governments to government department. So, I think, maybe you should not just go on the quarterly performance, we do hope that you see in the year had this should also be a good decent growth in this. I do not think Q4 should be taken and extrapolated going forward.

Aditya Bhartia: Understood sir. And Sir, the next question is on margins in Cables and Wires business, which appear to have risen for almost all companies in the last few years and within that if you look at this particular quarter, pretty much every company appears to have reported very strong margins. So, what exactly has contributed to that? And how do you see these margins panning out?

Ameet Gupta: They are still the lowest in our product categories for that matter. So, I think, some degree of price disciplining in every company, I am sure believe that and so they deserve better remuneration for what we are doing. So, nothing in particular I would assume.

Rajiv Goel: And for us the margins have been pretty stable.

Ameet Gupta: And on that we have grown exponentially in margins we have been improving margins over the last few years. So, hopefully, that should continue, it is a big part of our business we want them to be more profitable.

Aditya Bhartia: Understood, sir. And sir, my last question on Lloyd. How are you seeing the TV business given that we have seen some of the low-cost Chinese companies coming and disrupting pricing over there. Do you think margins for the business may inch down at least in the TV category going forward?

Ameet Gupta: I think TV is the toughest part in this. I think, you do not want to be in this business, it is not easy to be part of this business, so that I can say. So, yes, I think, fortunately-unfortunately still not a very large part of our portfolio. But yes, I think I would say it is in a transition stage, I think let us see how it goes. But I think we will try to protect ourselves, but it is not easy being to be a TV guys these days.

Rajiv Goel: So, we certainly believe that the brands would always continue. Chinese have made an impact, but because of that Chinese influx there has been a reaction from most of the leading brands where the margins are becoming tougher. But as far as the market shares and all are concerned we are very sure that the big brands would continue to do volumes.

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

- Shrinidhi Karlekar:** Sir, you touched upon channel inventory, I just want confirmation on that. Would it be fair to say that, the channel inventory for your Fans and the AC segment at the start of the new financial year is relatively lower than what it was seen period last year?
- Ameet Gupta:** I think, it should be Shrinidhi it will not be proper to really have a sort of strong estimate of that. But I think, it should be lower.
- Shrinidhi Karlekar:** Okay. Thanks for that. And my second question is like you are spending about 7% on the Lloyd on advertisement and promotion, do you see yourself spending similar amount in terms of percentage for the next couple of years? Or do you see it increasing or decreasing?
- Ameet Gupta:** We certainly hope the revenue growth would take care of some of the percentages.
- Shrinidhi Karlekar:** As in like percentage of revenue or would it be similar or it may go up or go down?
- Ameet Gupta:** So, what I am expecting is that the revenue should go up and automatically the percentage to revenue should come down accordingly.
- Moderator:** Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Pranav Tendulkar:** Sir, can you just elaborate, what is the percentage of replacement demand in each of the verticals or each of the segments that you say, other than the AC segment? That is first question. Second will be, what is sustainable margin in the big segment and is there a big difference between consumer and wholesale? So, for example, in Cables, what would be clear builder demand versus retail in demands? And that is it from my side. Thank you.
- Rajiv Goel:** Pranav, I think you have asked the very simple but a long question to be answered. So, what I suggest you our colleague Manish will be in touch with you and then he can elaborate with you on the same. Because if we give you every segment these things I think it will be very difficult on this call.
- Moderator:** Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.
- Ashish Poddar:** Yes. Sir my question is on the Cables and Wires business. So, we have been seeing strong demand which is pretty much visible to last many years and also, we are seeing improvement in margins. What do you think the sustenance of this kind of growth and margins in the next two years - three years?
- Ameet Gupta:** See, this government believes in building up infrastructure which this country chronically needs then I would assume that there is whole lot of potential in the segment. Now how we perform ultimately will depend upon our own strengths and all. But I think on a macro basis we believe this holds tremendous opportunity.

- Ashish Poddar:** But how do you see new players coming and we have seen all FMCG companies getting into this business. How do you see competition going ahead in this business, especially on the Wire side?
- Ameet Gupta:** Wire side, the competition has always been there, where we have three more players or three less players frankly it does not matter in this business. I think, the macro opportunity to my mind should be the larger issue, if the macro opportunities are there, I am sure we can accommodate.
- Ashish Poddar:** You believe that 15% - 20% kind of top line growth, revenue growth will continue for...
- Ameet Gupta:** We do not go for the guidance you are aware of that. So, again, I would reiterate that the opportunity in this is fairly compelling and we believe we can do justice with our brand distribution network, manufacturing excellence to continue to grow in this segment.
- Moderator:** Thank you. The next question is from the line of Vinod Bansal from Franklin Templeton. Please go ahead.
- Vinod Bansal:** Couple of questions. One on the ECD business, Fans primarily, while the growth has been weak, could you give us some color on what you think would have been the industry growth in the quarter gone by? That is one. And some broad estimate of what your Fans growth would be within the ECD segment?
- Rajiv Goel:** So, Vinod, we believe Fan industry has been fairly muted now, it is anybody's guess but we reached low single digit upon the industry. As far as we are concerned, you see we do not give individual breakup of Fan, but it is pretty much in line with the overall ECD growth.
- Vinod Bansal:** Okay alright, and the Lloyds business, I think you spoke about the channel inventory, I missed that part. Can you just again elaborate, how would inventory be from say December quarter to the March quarter? Both your own inventory, and distributor inventory, channel inventory, even a rough estimate. How much you would have normalize come down by and how much more for it to come down to your usual business levels?
- Rajiv Goel:** So, the channel inventory must be lower. I think, the question was should be lower than the last year. So, the answer is yes, I think we believe there have been channel destocking. As far as we are concerned, you see, we build up the inventory. But because of delays summer, we obviously carried more inventory than the planned for 31st March, which is too more for Fans as well as ACs. We believe by 30th June both of them should get normalized.
- Vinod Bansal:** Okay. Would you like to give, it is 15 days higher or 30 days higher of sales inventories, what you are carrying more than what you would normally wanted?
- Rajiv Goel:** Not 30 days - 15 days like that, but definitely we carried more inventory as I said because we never anticipate the summer to be delayed and the season to be delayed that much. So, we have not really quantified how many days because that is own complication what says you take and

things like that. We do believe that we carry more inventory as on 31st March. And we do believe that by 30th June we will get back to our normal inventory level. Because though the summer has been delayed but I think after it is delayed, the off-take has been fairly decent.

Vinod Bansal: And then the channel is not overstocked compared to what they normally are at this point at the end of last quarter?

Rajiv Goel: So, I think the entire brand has been taken by the company then the channel.

Vinod Bansal: Okay. And just last thing if you could speak a bit about the distribution base, are you able to share numbers of that, when you acquired the brand what was the typical distribution based like and how it has changed in the last few versus operating, both the traditional distribution channel as well as the modern retail. If some number are there that will be helpful.

Rajiv Goel: So, we answer that, at our modern retail, you see overall it has improved. So, to give you an idea, 7% - 8% sales used to accrue from modern trade now it is almost 20%. RR and modern trade together Lloyd. You talking Lloyd obviously

Vinod Bansal: Yes, absolutely. Yes.

Rajiv Goel: So, as I say we are fairly encouraged by the response we have got from this segment, normally segment in a way “snooty” also. But I think, it is maybe the patronage of Havells, I think the long-term stability now they see in the brand and the fact that we are improving the imaginary kind of investment we are making in the brand both in the advertisement and now setting up the you see the sort of modern state-of-the-art plant in India. I think, this gives a fairly long-term visibility to these sort of RR chains and that is why I think they are really not looking forward to Havells into their counter. And we have been fairly and enthusiastically sort of received by them.

Vinod Bansal: Okay. Would have some numbers in terms of how many chains you reach today compared to when you acquired?

Rajiv Goel: 75% of the retail chain, we would have reached.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: So. I have two questions one on Lloyds. How should we consider the sustainable margins over a longer term, so we have seen a drop from 8% to 5%. So, what in your view are sustainable margins for Lloyd?

Rajiv Goel: So, as I said the 5% looks to be an aberration and hopefully, in couple of years and going forward as we said the industry leaders are at (+10%). I mean that is the journey we want to take. And I think, this will start reflecting in a few years. As we get into our own manufacturing and all, this

will only add to the margins. But this is journey, this is not something which is going to happen in couple of quarters.

Bhavin Vithlani: Okay. That is helpful. Second is you also spoke about introduction of refrigerator so, some more color on that will be helpful, even on that segment are you....

Rajiv Goel: So, that I said somebody asked me the question are you broadening the portfolio, as I said there is something definitely under active consideration and may be something in the next sort of 12 months or so you should hear more from us.

Bhavin Vithlani: Okay. My last question is on the working capital. So, we saw the increase in the working capital primarily due to reduction in the creditor days. And in your notes you mentioned it is similar to FY 2018. So, is this more sustainable number or how should we look at working capital cycle?

Rajiv Goel: Yes, I think it is in fact is lying with our average as well. If you look at and do not go just by that, overall days has been on 24 days - 25 days and I think, we have ended this is year also at 28. So, sometimes you see, the quarterly number distort the average and the trend line.

Bhavin Vithlani: Okay. So, 20 days - 28 days - 30 days is like more sustainable number or versus 30?

Rajiv Goel: Yes, let us say between 22 days to 24 days - 25 days a few days here and there.

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

Achal Lohade: My first question was if I look at the unallocable expenses or the employee costs we have seen a significant amount of increase in last couple of years. So, is it fair to say that now the broadly the cost part is done and we should start seeing the operating leverage? Or you think there is some more room for the operating cost to go up before we see a meaningful operating leverage benefit?

Rajiv Goel: I think Ameet also commented in between that hopefully the growth in the revenues should take care of this. When you see these numbers, you should appreciate that there is a lot of new businesses we keep adding every year. So, for instance last year we added Water Purifiers. So, the cost of that because you do not do segmental separately so they get absorbed in the overall numbers and because of the base effect they suddenly also add to the percentage growth. So, if you take out these and like to like we see the growth will be around somewhere 17% - 18%, which is something like the increments and some new additions which keep happening to the existing business. So, we believe that definitely there should be more leverage coming out of these investments. And hopefully, as we keep now believing that the way this government has got a political stability and the way I think they are going to invest. I think we are very well-prepared to take advantage of the growth, which could sort of are ushered in from now. So, hopefully, when we talk in next few quarters these questions, we get self-answered.

- Achal Lohade:** Great. Second question was, can you help us with the volume growth for the fourth quarter for Cables and Wires?
- Rajiv Goel:** Pretty much similar, pretty much to that because there has not been much value, you see the copper has been stable. So, this is you could argue is pretty much the volume growth.
- Achal Lohade:** And what about the full year, sir?
- Rajiv Goel:** Full year what?
- Achal Lohade:** Volume growth for Cables and Wires?
- Rajiv Goel:** I think we will come back; we do not have that right now.
- Moderator:** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** Sir, just one question from my side related to the previous participant, who spoke about operating leverage. Now our employee cost clearly has gone up in the last one year and that is obviously because of the investments that we have made. On a sustainable basis now are we reasonably well penetrated across the country in terms of our distribution and our people and how should we expect this employee cost to move forward from here for the next say one year or two years?
- Rajiv Goel:** Look Pulkit, as I said this is also occurring because of the new businesses we keep adding new business lines and also, the new regions we keep extending into. So, in some sense, it is an ongoing process, however we believe the pace of the growth definitely should receive from now. And as I said maybe when the revenue growth also kicks in, I think these growth numbers will be much lower. But yes, I think we will not stop investing in that talent acquisition, we believe that is what is required to sweat the kind of infrastructure we have now created both in terms of the brand and sort of the manufacturing excellence. So, I think the investment in talent acquisition will be there but may be the pace of growth should subside from now on.
- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC. Please go ahead.
- Bhoomika Nair:** Sir, just wanted to understand the Switchgears segment a little better, this year we have seen a decent double-digit growth driven by a little bit of low base focus on EWA and exports. Now, if you can just comment how sustainable it is given that realistic remains, also the quarterly margins were a little bit weak in this quarter. So, if you can just comment on that?
- Ameet Gupta:** So, we certainly believe that Switchgear growth should continue I mean it has not really been a great year in terms of real estate and all and still we have been able to deliver these numbers and with the stability coming in I am sure the country would need a lot of infrastructure and real estate going forward. So, I mean, in the medium-term to long-term, we are very bullish about

the Switchgear business that has been a major revenue as well as profit for the company and we believe that it should continue in the same line.

Bhoomika Nair: And the margins which were little weak in this current quarter, sir?

Ameet Gupta: That I believe is primarily due to the under absorption of some costs in this particular quarter.

Bhoomika Nair: Okay. And just my second question was on the more from a short-term perspective on demand, you mentioned that there were some addition in DC related slowdown in demand in 4Q. So, would that kind of partly continue into 1Q specially for segments like Switchgears, Lighting, etc.?

Ameet Gupta: It is certainly continuing as of now. Situation has not dramatically changed from the last quarter.

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

Arnav Mitra: First question was on the ECD growth slowdown that we have seen. So, now in the last three quarters - four quarters, we have seen your ECD growth be significantly higher than your Fans growth. So, obviously, the other categories were contributing substantially. Now this quarter it seems it is more or less similar. So, is it because of end consumer demand or is it because of some categories which were ramping up. But now have these some scale and from here on the growth will not be at the pace at it was in the last three quarters - four quarters?

Ameet Gupta: Nothing like that. It is just that like you said the season was a little bit delayed in an overall sense, so most of the categories are the same. So, the whole thing about the consumer demand and everything is impacted across the segment actually. It is not really limited to one particular business or the other. So, the trend would continue I mean the newer businesses would be growing faster than the existing big ones.

Arnav Mitra: Okay. Second question was on CAPEX, so you guided for about Rs. 600 crores next year, this looks fairly high considering you have just done the Lloyd CAPEX. So, is there a big step jump in the amount of capacity you are adding together next year given that this number seems high compared to the past years?

Ameet Gupta: Yes, you are right. First of all, some of this Rs. 600 crores is Lloyd left over in this particular plant itself. But other than that, we are expanding capacity in most of the businesses we are in which is Switchgear as well as Cable and Wire and in Fans. So, all these segments there would be a substantial increase in the capacities in the next year and the following year after that.

Arnav Mitra: So, some of these could spill into FY 2021 the Rs. 600 crores that you mentioned?

- Ameet Gupta:** Whatever we are going to spend the benefit of that would certainly be after a year or so. The spillover might not happen but the project execution and the commencement of the production and all would take its own time.
- Moderator:** Thank you. The next question is from the line of Abhinit Anand from SBICAP Securities. Please go ahead.
- Abhinit Anand:** For Lloyd, I just want to understand what has been the volume growth for the year?
- Rajiv Goel:** Pretty much you see there is a flattish growth in Lloyd.
- Abhinit Anand:** And for the full year if you can break up revenue of Lloyds into the various products that it sells?
- Rajiv Goel:** See, Largely as I said 70% of this is AC. So, I think you should just consider AC, growth as overall growth for Lloyd.
- Moderator:** Thank you. The next question is from the line of Sachin Pal from M C Reasearch. Please go ahead.
- Sachin Pal:** Yes. So, the question is basically specifically on your balance sheet. There are intangibles around Rs. 1,500 crores which came in as a part of the Lloyds acquisition and the amortization that we have done across for the year is around Rs. 15 crores - Rs. 16 crores. So, just wanted to understand on the amortization policy going forward on this front.
- Rajiv Goel:** So, this is as per the IndAS, you see the rule require that you have to do the impairment testing except for the non-compete and distribution network which is being done which you already see the charge. The goodwill and the distribution and the other part is basically tested for the impairment. So, that since there is no impairment, there is no charge to the P&L. so this is as per the IndAS requirement.
- Moderator:** Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.
- Shrinidhi Karlekar:** Sir, I wanted to hear your thoughts on the how good has been the customer response for your Water Purifier business? How large it has become and how much of the addressable market you have reached in terms of distribution?
- Ameet Gupta:** So, the response from the market has been really encouraging, we launched a product which was having better features than most of the competition and was at a premium. So, people realize the value of the product and we got a great response from the consumer. But as far as the numbers and all are concerned, it is still very early business for us, so to be at reasonable size player in this market would take its own time, so the initial placements have been done and then initial pick up from the market is very good.

- Shrinidhi Karlekar:** Okay. So, just like a qualitative comment on, in terms of distribution how many cities you have penetrated already, some quantify or qualitative color which you have already achieved that would be a help?
- Rajiv Goel:** Shrinidhi, we will come back to you on this. We do not have a ready number right now.
- Moderator:** Thank you. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.
- Naval Seth:** My question is on the rural distribution expansion in the past we have stated that the large part of growth is coming from Tier-II - Tier-III towns and we have been aggressively expanding rural distribution. So, what is the progress there, where we have reached as per our target? And secondly, will we be launching or adding new product lines under REO brand because as the rural expansion would require products which will be at lower price as compared to the Havells main demand?
- Ameet Gupta:** So, the rural plan for the company is continuing as per whatever we had worked on. But it is a slow and steady process because to reach in deep into the interiors of the country takes time and we have been building up the massive team across the country to penetrate into this segment. As far as the overall number is concerned, it is still a very small portion of our business. So, still in a buildup stage in that sense. As far as the products are concerned, we have already made a decent portfolio within the REO brand of a certain broad category which we feel in the first stage, would be the right portfolio to go to the market. To expand further on that would be only after we reach a certain success level with this portfolio.
- Naval Seth:** And sir, in rural or across your distribution would we be looking to change any terms and condition on channel financing, limit on channel financing going forward any thoughts there?
- Ameet Gupta:** So, rural business is working on a cash and carry model, where basically we are applying to a distributor who is paying us cash and then he is placing it with the retailers within the rural areas. So, there is no credit in this business.
- Naval Seth:** And anything on channel financing on the overall business, are we looking to tweak any terms condition or that remain status quo how it was in FY 2019?
- Ameet Gupta:** It would continue as it is, it is doing fine, there is no change.
- Moderator:** Thank you. The next question is from the line of Abhijit Sinha from Pi Square Investments. Please go ahead.
- Abhijit Sinha:** Sir first, I was asking about Standard business. The Standard brands and the second question is regarding the HYUNDAI tie up that we have.

- Ameet Gupta:** So, Standard continues on a similar kind of a growth as overall company and it is becoming a substantial brand in itself, we would be doing, we have done. So, in all the segments, which are we are present in is doing decent growth and placement of product slightly lower than Havells. So, we are addressing a different segment to that extent.
- Abhijit Sinha:** Yes, sir. So, I think you guys are looking at Rs. 500 crores revenue coming in from there? So, now is there any change, do you think in FY 2020 we will be able to get around some higher numbers, sir?
- Ameet Gupta:** So, I think our numbers should be similar to that already. As far as the HYUNDAI is concerned, the tie-up is on we are already supplying some Switchgear products to HYUNDAI and we are expanding the product portfolio which would be going to them. They are actually looking at India as diversification of risk from China sourcing which they were doing, so they have come to Havells and we are expanding the portfolio which we are working with. Also, they are helping us in some of the technology for some of the Switchgear products for the Indian market.
- Abhijit Sinha:** And sir, for the FY 2020 do we again see a 3.5% of our sales spend on advertisement or with the new brand ambassador of Lloyd you think that percentage will rise a bit?
- Rajiv Goel:** You see Havells and Lloyd are independent. Lloyd, you might get seen the numbers already around 7% and Havells is around 3.5% to 4%. I think those numbers will not change meaningfully in the coming year.
- Abhijit Sinha:** Okay. Sure. And sir has there been any further penetration within the premium fan segment.
- Rajiv Goel:** Yes. I think, that say again that is continuous and ever and I think we believe that segment is continue to grow even though it is niche I think that is certainly growing much faster than the industry.
- Moderator:** Thank you. The next question is from the line of Darshan Mehta from UBS Securities. Please go ahead.
- Darshan Mehta:** My question was regarding Lloyds, so while a large portion would be room ACs and Color TVs, can you tell us that do we also sell a small proportion of Washing Machines or something a very small proportion of something?
- Rajiv Goel:** Correct. We do sell. And we see good opportunity in that segment going forward as well but what we are saying that overwhelmingly it is still a AC brand. But over a period of time you would definitely see the broadening of the products ranging offered by Lloyd.
- Moderator:** Thank you. The next question is from the line of Nitin Shakhder from Green Capital. Please go ahead. Nitin, you line is unmuted. You may please go ahead with your question.

- Nitin Shakhder:** My question pertains to the Lloyds business and the new factory capacity addition. Can you highlight an approximate estimate of the product SKUs for the financial year? How much would the factory produce?
- Rajiv Goel:** No, that is still being as we mentioned earlier on this call, is that the factory just started the SKD, the full-fledged production will start maybe in a couple of months. So, I think those decisions on the SKU and all will actually be part of the operational plan, which will only get finalized maybe in the next sort of four months to six months. So, I think, this is premature to comment upon the same.
- Nitin Shakhder:** So, effectively you are saying that any benefits of the production of the factory will not accrue this financial year?
- Rajiv Goel:** Yes. Hopefully in the last quarter yes because the season start somewhere January onwards. So, in the last quarter it was there but I said the SKU when I get numbers and all those will be something you may get finalized by September - October.
- Nitin Shakhder:** Okay. And my follow-up question is can you highlight any feedback from the trade in terms of EMI consumption? What do you anticipate the consumers to do in terms of, are they slowing down? Is it going to pick up this year? Is it going to stay static specifically when it comes to high end products let us say like the Lloyd Split AC, what is the feedback from the trade of EMI consumption?
- Rajiv Goel:** You are talking consumer finance?
- Nitin Shakhder:** Correct.
- Rajiv Goel:** Yes., I think that is only going to grow there is only one way. And in fact, I do not think it is now limited only to the large ticket appliance or things consumer is just getting used to leverage. So, he will take leverage from wherever it is available.
- Nitin Shakhder:** Okay. So, do you think there is a healthy trend to move down towards lower value items, also rather than higher value items?
- Rajiv Goel:** Both, yes, I think it is moving in every directly, I do not know if it is healthy or unhealthy, but the fact is that the leverage is going to be the defining factor for any consumer business now.
- Moderator:** Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.
- Ankit Babel:** Sir, for the company as a whole you have reported EBITDA margins of 11.9% this year. What could be expected in FY 20120, sir?

- Rajiv Goel:** Yes. We hope to improve only, we cannot guide you a particular number. We do hope that these numbers should be better when we talk next.
- Ankit Babel:** Okay. And sir second is in your ECD segment the base is very high for the first three quarters of this year. So, on that days would it be possible for you to witness at least a double digit growth?
- Rajiv Goel:** That will be our endeavor, whether we end up doing this or not that is a challenge we have taken upon ourselves.
- Ankit Babel:** And sir, lastly just correct me, did I hear it correctly that in your initial remarks you mentioned that things have still not picked up in the month of April and May.
- Rajiv Goel:** Yes. What we said is that there is nothing significant change on the ground because political certainty just come few days back and the action on the ground is still to be undertaken. So, any macro improvement should happen from now on. Except for weather related product like Fans and AC yes, I think that one part of that sort of equation seems to have resolved there are multiple issues still plaguing the economy.
- Ankit Babel:** Okay. And sir lastly, since you are doing Rs. 600 crore CAPEX, so initially could there be pressure on your margins because there would be a lot of overheads, which would be coming in and the benefit of revenue will only come in the years thereafter. So, in that initial period could there be a pressure on your margins because of higher cost? Because this is a big investment you are doing.
- Rajiv Goel:** See even in this year, we have done close to Rs. 500 crore plus of CAPEX. So, I do not think it will really impact the margins in that sense. So, if there is a good demand, I think the margin should only improve. They would not be impacted because of the additional CAPEX.
- Moderator:** Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.
- Keyur Pandya:** Sir, my question again you endeavor to increase your operating margins next year. So, do you more function of gross margin expansion through prices hikes or it will be more of operating leverage through higher sales? Just clarity on that front. And second question is press release you mentioned that ECD margins were impacted due to product mix. So, if you can throw some light on that?
- Rajiv Goel:** So, on the first, I think it will be a mix of both. There cannot be just one strategy. So, there should be improvement in the gross margin, higher revenue should also bring the operating leverage. So, that is how we look at the overall business. On the mix we said you see normally because of the delayed season you see Fan growth has been muted. Normally Fan is a higher margin than the new product categories we have. So, that is the reason we said the product mix has been sort of slightly adverse then it has been in the past. And that is why you see the lower margins.

Keyur Pandya: Okay, perfect. Just one follow-up question, so asking of EBITDA margin expansion through gross margins, for the last six months to nine months, we as an industry have not been able to pass on the added inflation. So, what is the status or what is the confidence that it will be possible in the near term or medium-term?

Rajiv Goel: No, look, what we said this will be our endeavor and I think confidence and other things will be sort of ultimately we are a pragmatic people, that will depend upon how the business pans out, how the other economies behave, how do we see the sort of macro demand pick up and all. But the strategy you asked us it will be driven by both. Definitely, we are not looking at just increasing the revenue without by sacrificing the margins and vice versa. So, our endeavor will be to do both. How much we are successful will depend upon various factors, which will only pan out, you see as the year unfolds.

Moderator: Thank you. Ladies and Gentlemen, that would be the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Ameet Gupta: Yes. Thank you everybody. We do hope that the things will only get better from here. And look forward to engaging with you next time. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.