



“Havells India Limited Q4 FY-20 Earnings Conference Call”

May 13, 2020



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MODERATOR: MR. NAVAL SETH – EMKAY GLOBAL FINANCIAL SERVICES.

Moderator: Ladies and gentlemen, welcome to the Q4 FY20 Results Call of Havells India Limited, hosted by Emkay Global Financial Services. 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 you may signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Naval Seth of Emkay Global. Thank you and over to you sir.

Naval Seth: Thank you, Margaret. Good morning, everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us Mr. Anil Rai Gupta – Chairman and Managing Director; Mr. Rajesh Kumar Gupta – Director Finance and Group CFO; and Mr. Rajiv Goel – Executive Director. I would now hand over the call to the management for their opening remarks. Over to you sir.

Anil Rai Gupta: Thank you Naval, this is Anil Rai Gupta. Good morning everyone, we hope everyone is safe, secure and healthy. During current times safety of all our employees and stakeholders is paramount. We move to work from home on the 21st of March though the activities were disrupted from 15th of March itself. We are gradually and cautiously resuming activity, initiating with our factory. Market are in slow phase as customers and dealers act with caution. The pickup is relatively better in semi-urban and rural areas, while urban areas continue to be challenging, owing to the lockdown. We have been in constant communication with our employees and dealers. I lead a live streaming with our 5000 employees and 9000 dealers to apprise them of our efforts to protect their interest and wellbeing. Prior to the lockdown, we had sufficient cash balance, and we have been regular in paying dues for employee, vendors and all statutory and government dues. The yearend incentive schemes for our dealers were also settled and paid on 31st March itself, which was widely appreciated by the fraternity. We have further bolstered our cash reserves with further credit lines for any eventuality.

Q4 had started on a healthy note that consumer businesses growing in double digits in the first two months. Lloyd had a spectacular growth in Jan, Feb and had gained momentum for March closure. However, the loss of the last 15 days had a crippling effect on the Q4 performance. Being a yearend and a quarter end, later part of March has a disproportionate effect on the quarter sales, constituting as much as 25% of the sale. We feel had disruption not occurred; we could have grown Q4 at 9%. The external environment continues to be challenging, volatile and evolving. We are responding to the emerging scenario with agility and preparedness. We fervently wish that the epidemic is controlled and economic activities resume in a very short period.

We now proceed for Q&A. Naval we can start the Q&A.

Moderator: Yes, sir. Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Given that you've seen, you've restarted production partially and I'm assuming that some retail would have also commenced, you mentioned about semi urban, rural given the fact that urban lockdowns are continuing, could you also give us some understanding of product category wise in terms of where you're actually seeing, some strength in terms of dealer purchases from you or in terms of the retail side of things, and also if you could give us a perspective on B2G- is government also coming back and restarting ordering. So that's the first question?

Anil Rai Gupta: Venugopal good question. What I would say at this present time, because it's very short period of time when economic activity started on the 4th of May. So we've just seen seven or eight days of economic activity. So, I'll base my replies based on what we've seen just in the last few days. And so, what we've seen is that, the urban areas are still opening up in a very, very small way, but there is more demand coming up from rural and semi urban. Now, there could be a possibility that during the month of April, some of the stocks would have depleted in these areas where they would have opened some shops and started selling some materials. Generally speaking, March is a month where dealers start picking up material for the year end closure. Though the major sales happened during the last 10 days, but still there is a little bit higher pickup. This was also a special year where in February we saw a little bit more pickup for air conditioners. Because generally people were expecting that there may be some slowdown in primary sales from companies during the month of March and shortage of supplies because of China closure. So, there were enough stocks built up at the dealers end and in reality, we are also a little bit pleasantly surprised with the start of some activity in primary sales. However, it is restricted to products like fan, air conditioners, which obviously are seasonal products, which also shows that the dealers are picking up at this time. They definitely are not picking up for stocking. They have secondary and tertiary sales happening at their counters. Also, we see pickup in domestic wire sales, which also means maybe in very small towns, maybe some construction activities were continuing during the lockdown period as well and hence some requirements of wires are also coming in. We also see in a small product category like personal grooming, immediately witnessing a pickup. So, it is sporadic but because of our efforts in the distribution in semi urban and rural areas, we are also seeing some demand coming from the rural areas for lighting products and fans, especially that in REO brand. So there is a mix of everything I would say first seven or eight days is a little bit better than what we were expecting.

Venugopal Garre: That's a good color. The second question is more on the channel side of things, in terms of what kind of incremental support is the channel expecting from you or you think it's actually not required because it's just like a one month lockdown. And more importantly is there as you open up and start supplying to the channel, is there expectation of better terms from the dealers at this juncture because they might still not be, fully up and running. So in the terms of trade going to change, is there an inventory problem, the sick areas and more importantly, financing side of dealers, this is last question. So this is second and last question.

Anil Rai Gupta: Again, I would say that during the last 45 days or so we have seen though we were expecting zero to nil collections during this period, we saw collections starting from the first week of April, the first seven or eight days, the collections were very low from the dealers. And in our case,

we've seen more responsible activity coming from all sets of dealers, rather than just delaying the payment, so, a mix of many things are timely settlement of their credit notes for the entire year. The fact that we also have some long term funds available for such times, where dealers can use that. So, a lot of that was also used. So, we are not really in a problem where the dealers are expecting very long lines of credit from the company. So, when the economic activity has started, generally speaking, we are in a much better shape and there is no great expectation of credit lines. Also, I would say that at this point of time, there is not enough requirement for heavy discounting or anything of that sort. In fact, as I said the sales are not really push based sales, it's mostly pull based sales. So, on both the things, I would say not really.

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

Sonali Salgaonkar: Sir my first question is very approximately what proportion of our sales is emanating from urban cities by that I mean Tier 1, metros, etc.?

Anil Rai Gupta: Right now it would be anywhere between 30 to 40%.

Sonali Salgaonkar: Got it. Sir and in the first, after a slight resumption that you have mentioned from 4th of May, again ballpark, what proportion of our retail touch points or sales points could have opened?

Anil Rai Gupta: Depends again, on the areas. So in the red zone, maybe about 35, 40% but in the orange and green zone, most of the shops have opened but with very limited activity. So we are witnessing maybe 30 to 40% activity in those shops in orange and green zones.

Sonali Salgaonkar: Alright. So, altogether about 30 to 40% might have opened as of now?

Anil Rai Gupta: Yes.

Sonali Salgaonkar: Sir and any color on the pickup of at least our summer products, the demand for our summer products, given that the lockdown is getting extended and only the red zones are the Tier I cities and the metros?

Anil Rai Gupta: Yes, as far as summer products are concerned, the best part of the season is already gone. So March and April are, especially in the Northern parts of the country and most of the, other than South, March and April are the biggest month. So most of that is lost. So whatever is happening is again, need based and during this time as I said, the dealers would be initially clearing up their stocks because they also don't want to be left with huge inventory after the season gets over. So, whatever sales activity that you're seeing in air conditioners and fans, I'm pretty sure that it's based on replenishment models rather than, extra stocking by the dealer.

Sonali Salgaonkar: Got it sir. And probably how many weeks or by when do you foresee majority of our outlets opening up?

Anil Rai Gupta: Your guess is as good as mine. So, we are trying to respond to the situation as it pans out. I think the best part of this crisis we have seen is that, the organization is extremely flexible and resilient, whether it's our production activities or warehousing activities. So we are quite well equipped to serve the needs as and when things open up. So but as I said, it's not really known what will happen in the next 30 days, 60 days, but we are quite flexible to operate in any way. Even after reduction is concerned.

Moderator: Thank you. We have the next question from the line of Harish Bihani from ICICI Prudential. Please go ahead.

Harish Bihani: Given the current context, what are the kind of changes initiative that we would take both on the revenue and cost functions?

Anil Rai Gupta: Revenue and the cost side?

Harish Bihani: Yes.

Anil Rai Gupta: On the revenue side, I will say much as I said, again.

Harish Bihani: Sorry, when I mean revenue, I mean that any changes in the way distribution was done or maybe a new channel, etc. that you're thinking of or more prominent online sales, etc.. And then on the cost function?

Anil Rai Gupta: I was about to say that, over the last three or four years the company has sort of worked upon the fact that we have been very, very strong in the traditional channel. But if you know that we've been working on becoming an omnipresent, omni channel presence organization, whether it is for Havells or for Lloyd. In fact, when we acquired Lloyd, it was primarily a distribution based company and within the last two years, we completely revamped the distribution network and now 35% of the sales are coming from modern format stores, including online. So, what we're seeing is and I don't want to give general gyan on this call, because everybody knows trends will change over a period of time, how trends will change, whether online sales will happen more, whether it will be for a shorter period of time maybe next six months, one year when COVID scare is there or the habits will change to online. So, to continue I would not spend well too much time on that, all I can say is that the organization is quite ready with the work which is their for last three or four years. Also spending a lot of money on digitization of the company which will definitely help us going forward and we are getting prepared for all kinds of changes which may come in the consumer behavior, whether they want to buy online, whether they want to buy through a marketplace, whether they want to buy Havells store, whether we should be combining our traditional channel along with our the online channel. So a lot of activities in the background are happening. Again, the focus is that the customer should be served wherever they are and from wherever they want. That's what the focus of the organization is.

Harish Bihani: In terms of cost initiative?

Anil Rai Gupta: So, again COVID is teaching us a lot of things and I'm sure all organizations would be looking at their cost structures and again, each and every aspect wherever there are ways so bad cost are being looked at, whether it's in the factory, offices, sales activity. So, again I would say automation, digitization, virtualization will help reduce the cost anyway, which is there, which is already in the works. And overall it will teach us new ways of thinking. So, a lot of focus on the cost structure as well. But as I said on all aspects, whether it is our service network, whether it is our supply chain, factory, branch offices, commercial spaces, all those activities, we are looking at cost saving measures. But it is not just to take care of the impact of let say COVID, what we are trying to look at is newer ways of working for the future and how we can make the organization far more effective and resilient for the future.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sir, my first question is when we said, just going back to your 9% adjusted growth, which you said if COVID would have not been there. I'm asking this question more to understand from a category perspective, you are talking about a 3000 crores sale in Q4 if COVID would have not been there, that's 800 crores incremental and 250 crores on a Y-and-Y increase. Is it largely Lloyd, which has declined the contribution would be 100-150 crore only from there, because cable itself which is a large proportion of our overall revenue, you yourself is saying in the presentation that's declining because of the commodity pressure as well in terms of pricing? So, where does that growth in the category was coming where you actually expected a 9% growth. That is my first question. The second, with respect to costing, (inaudible) based on that topic, has there been a very high pay cut in the employee part or it's more of provision write-back which has happened in the staff cost, where we had seen sequentially 40 crore-50 crore reduction. If you can touch base on that, what's the recurring number we should look at for the staff cost, these are the two questions. Thank you.

Anil Rai Gupta: So, on the first part, there is or I'll ask Rajiv to reply on the first question on the second question, there are no pay cuts and if any, in the last few in some add backs or revisions could have happened because of the variable pay plans and the stock options otherwise, there is no pay cut for last year, as well as we have not announced any pay cuts as of now. Rajiv, would you take the first question?

Rajiv Goel: Yes. So Nitin in the Jan and Feb I just want to give you a glance as Anil said in his opening remark, we had a very good growth in the Havells consumer and Lloyd was on a spectacular growth, so Lloyd growth in the first two months was to the extent of 45% and even though March was rightly higher month, we were expecting at least a 33% growth. That alone could have added another 250 crore what we lost in the last 15 days, because it's not just 10 days almost 17 days we lost. And you know these things just gather momentum at the end of the year and the March happens to be peculiar month in both the quarter as well as the annual closure. Similarly, in the first two months, we had a good growth in Switchgears. Switchgear was almost 15% and even on ECD which is Havells ECD I am talking, with almost 24% growth. If we take that and cable

definitely, there was a decline in the first month and we were expecting that decline could have continued in the quarter as well. And so they could have been, there were significant addition accruing both from the ECD and Switchgear and cable even a decline would have added number. So, yes we were looking at we believe that we have lost almost close to 800 crore sales in these 15 days, because largely contributed by Lloyd and then followed by ECD and Switchgear. In terms of the loss.

Nitin Arora: And in terms of provision write-back, what could be that number?

Rajiv Goel: Your voice is not clear.

Nitin Arora: So, in terms of provision write-back, what would be that number?

Rajiv Goel: Provision write-back, there is no significant number. I am talking sales, you are talking of the cost right now then.

Nitin Arora: Yes, cost.

Rajiv Goel: It is in line with the reduce, because most of the provision write-back would have been because the sales didn't occur at the desired level. And you know lot of these incentives and provisions are built upon the particular level of the sales. So, even though we have been slightly liberals with our dealers, but definitely 800 crore loss in sale would have impact on the relevant provisions.

Nitin Arora: So that means we would be back to 230 to 240 crore kind of run rate in staff cost, is that the right way to assume?

Rajiv Goel: I don't have number as of now that we can separately discuss that.

Moderator: Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential Life. Please go ahead.

Keyur Pandya: Sir my question is, sir as you mentioned that March being a very heavy month being quarter end and year end so you could have lost out some sales. So, does it mean that the inventory in the system is not so high and primary sales should happen as and when the secondary demand comes up. So, there shouldn't be a huge gap between primary and secondary sales as the demand picks up gradually?

Anil Rai Gupta: Yes generally, because of March ending closing schemes there is a major pickup of sales in the last 10-15 days of March and the March ending inventories for dealers are higher, but that gets adjusted over the next one or two months. So, I would say the increase would be actually high especially for seasonal products like fans and air conditioners. The rest of the products would be not that high.

Keyur Pandya: Okay. And categories like Switchgears, second question is categories like Switchgears, cables and wires and lighting where either B2B exposure is higher, or B2G kind of exposure is higher or it is more linked to real estate. So, do you think the growth rate would be lower versus AC what is your view among the core Havells category on the relative going ahead?

Anil Rai Gupta: So, I believe it's a question of timing, but in fact, the first question asked by Venugopal also, maybe I skipped that part of the B2B and B2G part. But, going back to that question as well as yours, I believe that the initial pickup may happen more in the consumer categories rather than the industrial and construction related purely, and this is only a time lag. I don't know whether that time lag would be one month or two months, but the initial pickup will be higher for the consumer category.

Keyur Pandya: The context was that even before this COVID phenomena, we were witnessing slower growth for wires and cables and Switchgears already. So this would have even further deteriorated the situation so?

Anil Rai Gupta: So, yes part of that was mainly contributed by the industrial sales, industrial which means industrial and CAPEX related, government related sales. So whether it is in the professional lighting part of lighting, so consumer light is going well. In the cables and wires, domestic wires were doing well, but the underground cables were slow. And again in the Switchgear part, the industrial Switchgear was slow. So up till nine months, that's the trend that we have seen, with overall macroeconomic weakness anyway, but this was the part which was showing much lesser growth or de-growth as compared to the other categories. And that is why I'm saying that trend may continue till of course, newer investments that were announced and construction activity come back in a major role.

Moderator: Thank you. The next question is from the line of Eugene from Tokio Marine. Please go ahead.

Eugene: Can, I just clarify you mentioned in your opening remarks that the back end of March is 25% of the quarter sales, I just want to make sure I understood that right and also which products more backend loaded, if you could share?

Anil Rai Gupta: So, back end of March is, your understanding is right, approximately because a lot of contractor sales happened during that time. So it's also for not just for the seasonal products, but for all kinds of products, which and there are dealer, vendors which we are closing on the end of March as well. But there is definitely a higher percentage of sales which happened for air conditioners and fans as well in the end of March. But that cannot contribute to the entire loss of sales. So, it is prevalent across all categories, but the highest share would be for the seasonal products like fans and air conditioners.

Eugene: Okay, got it. And you mentioned also in the first question that, there was a pickup in January and February, because of the supply chain disruptions in China, I just want to get a sense of how much those sales were front loaded in January and February, because of the concern that maybe the supply chain would be disrupted. And if you normalize for that, if there's a way to do that,

what would have been the normalized Jan and Feb sales, would it be 9% or would it be another figure?

Anil Rai Gupta:

Right. So, Rajiv mentioned in his remarks also, that while Lloyd so, this is primarily for air conditioners, because that was a general feeling that. So for the products like air conditioners, there was a general feeling amongst the trade that because of disruption in supplies from China and not necessarily finished products, but also the components which go into the making of the product, there could be a shortage of supplies in the month of March and April. And hence, the trade started picking up more material and not just for us, but for other competitors as well. That's why, while and we had, transformed a lot of activities, including in our distribution and our manufacturing has started sometime in September, October, which was giving a lot of confidence to the trades. So we were anyways seeing a pickup for Lloyd sale. So that's why, while we have front loaded part of that, and that's why we were taking a growth expectation of March only of 20% as against 45% in January and February and that's how this number was arrived at that we lost almost about 225-250 crore of sales in Lloyd.

Moderator:

Thank you. The next question is on the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:

My first question was on fans and Lloyd which are seasonal, as we are in the middle of the season. So, even if we assume that the red zone retail actually opens up sometime in May, is it too late to salvage any of the lost sales in April and March. Or do you think there is still some time if it opens up sometime in May to salvage some of the lost sales in the last two months?

Anil Rai Gupta:

Well, I would say, that it is too late first of all to salvage the main part of the sales. Two, there will be some pent up demand and that will be catered to in the month of May and June. However, as I said in my initial remarks also that, even if there is a pickup of sale, the first possibility by the trade would be to clear off their stocks, which may also have been higher because of whatever things that you have discussed till now. So the initial thing would be and there will be more demand based pickup, primary pickup rather than push base pickup.

Arnab Mitra:

Sure, my second question was that, there is a view that there could be fundamental pick up in small appliances, kitchen appliances, personal grooming and things like that, as a result of the lockdown and but these are not very big segments for you, but you do have a presence here is your supply chain good enough, right now, these categories to take care of let's say pickup in demand or to take care of the opportunity that may be created here?

Anil Rai Gupta:

Yes, other than personal grooming most of the products we manufacture in India in our own factory so it is, the supply chain is well equipped to take care of the pickup in demand. You're right there is initially first of all when it comes to grooming there is a pent up demand anyway which is being catered to. Even in appliances though not right now but over a longer period of time. We will see pickups as you rightly mentioned for many reasons, I think I don't need to go over that. But we are well equipped to take care of that.

Moderator:

Thank you. Next question is from the line of Chirag Shah from CLSA. Please go ahead.

- Chirag Shah:** So if I understand it right, a large part of your dealer margins are also made in terms of the annual incentives which is part of the earnings. Now, is that also one of the reasons why there was a higher sales loss in the non-cooling products for the end March sales. And what have we done in terms of adjustment for dealers for their annual incentives, because if that is the key part of their earnings. And my second question, if I may ask is on the Switchgears margin. Now, I understand that, the correction in margin is largely because of operating leverage. But is there also a mix issue here where there was more export orders versus domestic orders for the quarter?
- Anil Rai Gupta:** So, first part of the question. I would say that, frankly speaking as you may be aware, that Havells is the most dealer friendly company, and the way we've settled the dealers and the kind of reports that we're getting, the dealers are extremely satisfied, first of all, timely payment of credit notes which takes care of their outstanding and the interest which they have to pay to the banks for the channel financing. So rather than keeping their money for another one or two months, with the excuse of lockdown. We paid their credit notes on the 1st of April itself. So which is a very big positive, to settlement of their credit notes according to their satisfaction, I would say I can't go into the details of how we settled each and every credit note, but I would say that it is entirely to the dealer's satisfaction and they are not complaining anything about their annual margins at all. So that's, taken care of. Sorry, second part of the question?
- Chirag Shah:** On the Switchgear side was there a mix related issue?
- Anil Rai Gupta:** On the Switchgear side, definitely domestic sales are a bit lopsided towards the month end and the quarter end, whereas export sales continue to happen over the quarter. So yes, there is a little bit of mix of that, but primarily a lot of that is due to operating leverage.
- Moderator:** Thank you. Next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Couple of questions, one is from a cost perspective- are there any cuts in ad spends, semi variable cost and CAPEX during this year. You had mentioned that employee cost would largely remain same or there are no salary cuts there in terms of employees. And my second question is slightly long term. So basically, do you see weaker players exiting over two, three year period because of this COVID disruption?
- Anil Rai Gupta:** Sorry, Ravi didn't understand second question?
- Ravi Swaminathan:** I just ask, so basically do you expect weaker players in the trade, weaker competitors to exit the space due to the COVID disruption which is happening this year?
- Anil Rai Gupta:** Sure. On the first part definitely Ravi depending upon the situation, we will be adjusting the spends that we do as an organization, both on the Marcom side as well as the CAPEX side. So, we are, first of all understanding the trends which will be changing in the consumer side and then only we'll be putting in our money rather than just putting the money. So, buildup of sales has to happen, understanding the consumer trends and where we want to put our money. So,

Marcom will be depending upon that. The CAPEX, I would say the first and foremost thing for any organization during a crisis is actually to protect the funds and making sure that the company is liquid during any crisis, this is one of the biggest crisis that we have ever seen and probably ever see. So, I would say that yes, we have taken a view on CAPEX as well. And, again, as I said we are very flexible organization and as and when situation changes, we will immediately put in all things for the CAPEX. Thankfully, our CAPEX over the last couple of years was enough to take care of the requirement as of now, most of the CAPEX which was happening was not something which was immediately needed, something which was built for, which was getting built for the future. So, I don't see any major issues in terms of even if there's some deferment of CAPEX for a few months or a couple of quarters. So that's not a big deal. Again, we can't really give a timeline to it, it all depends upon the situation. And thirdly, I really can't say this is not really an economic event, like GST or like financial crisis. So, at this point of time we are not looking at the competitive space, it's again the fact is how the consumer will change and how as an organization we are getting equipped to cater to that. Because of these changes some people, are not able to cater to that I really can't say at this present moment.

Moderator: Thank you. The next question is from the line of Ashish Poddar from Anand Rathi Research. Please go ahead.

Ashish Poddar: So, in some way you mentioned that there were some front loading of purchases from the dealer distributor, on the concerns of unavailability and this is what I also gathered from the discussion with lots of distributors across India. So, thanks for that. My question is on the gross margin side. So this time we saw a significant dip in the gross margin, which normally I see in every year, there is some contraction, so it is largely due to product mix or this time there was something else which had a high impact on gross margin?

Anil Rai Gupta: In any particular category or Havells overly?

Ashish Poddar: No, in general overall I am talking about.

Anil Rai Gupta: This primarily is when you lose quite a large part of your sales operating leverage takes, because production keeps happening. So, there is a big issue of operating leverage. So, I would just attribute it to that.

Ashish Poddar: Okay, so you're saying it is largely due to product mix and some kind of operating leverage?

Anil Rai Gupta: Right.

Ashish Poddar: Right, on depreciation, this time we saw some uptick on the depreciation maybe due to the resumption of commercial production of your AC plant. So this kind of run rate will continue or we may see a higher number going forward?

Rajiv Goel: No, the depreciation is largely on account of as you rightly said commercialization of Lloyd, as well as the Ind AS 116, which has also come into effect. So, these will continue to be similar we

don't think it's going to be increase, now the big bump has come in because of the Lloyd capitalization.

Ashish Poddar: So we have capitalized the whole impact in Q4 number. This is what I'm just trying to clarify.

Rajiv Goel: Correct.

Moderator: Thank you. Next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Just two small clarification required. We did mention that we'll review our strategies for Marcom, etc., but how should one look at the pipeline of new product launches that we had planned, including ramp up of the portfolio in Lloyds along with the launch for ref. So how does the strategy pan out there so two quarters assuming by Diwali we are near normal or however the environment plays out. What would be the outlook in terms of new product launches and portfolio expansion for the year?

Anil Rai Gupta: None of those things are delayed either from a financial perspective or from the perspective of the fact that lockdown stopped in work for anyone. In fact, I would say that primarily the entire organization other than production and sales was really background, work was continuing to happen. So, R&D has not stopped in any of our projects, new launches have not stopped and barring a little bit of maybe some delay due to not having been able to do, let say the prototyping in time, because of lockdowns or anything, otherwise everything is going to happen and there is no cut down on any expenditure there.

Renu Baid: So, the launch of ref and other segments should be accepted broadly by Diwali or should be prior to that?

Anil Rai Gupta: Maybe as I said, a little bit of delay, but just by a few days or a month or so.

Renu Baid: Sure. Second sir, you did mention that it's not that we have taken permanent cost cut or cost out actions, but there has been a meaningful and visible reduction in the unallocables also, which is the factor of some of the variables getting reversed, as well as ad spend coming down. So, how should one look at because we had also initiated certain cost out actions in the third quarter itself rationalizing across elements. So how should we look at the cost structure, should the part of the cost saving scene be retained for the rest of the year or you think it's just temporary adjustment to cost and would bounce back once revenues also bounce back?

Anil Rai Gupta: No, as you rightly said, second half saw some cost out measures anyway by the company. I think we can take that as an ongoing thing. Obviously, Marcom coming down in the fourth quarter because of let's say the seasonal products advertising not happened, when things come back to real normal, I'm not saying in the next one or two months, but when those things will definitely have to go back, to go back.

- Renu Baid:** Right. And just that last clarification which I was wanting was on channel inventory. So, from what I get, it's only channel inventory built up in your view has been in the seasonal products of fans and air conditioners, otherwise channel inventory across all other segments have been sitting lame?
- Anil Rai Gupta:** Channel inventory I would say is normal, considering the fact that, January, February, March normal sales would have happened. If March last 10, 15 days sales would have happened, and then the lockdown would have happened after 31st of March, I would have said channel inventory is high. But otherwise, I would say that other than seasonal products channel inventory would be at normalized levels.
- Moderator:** Thank you. Next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** So, just one question, do you actually see that there could be a downgrading in the consumption patterns and are you actually looking to tweak your product launch strategy, maybe pushing the Reo and that you were looking earlier?
- Anil Rai Gupta:** I don't see major change in strategy from a point of view of fewer cost product and all that I've always maintained that our various brands cater to different needs of customers. Reo is definitely a different need for a consumer and not a lower priced product. An MCB for example, for an urban house maybe a certain product of Reo may not cater to because this is a low breaking capacity whereas in a certain low affordable housing it can cater to. So, I don't see major change in product strategy because of COVID that people will downgrade or anything on that sort. Havells is not a luxury player, we are more of a mass premium players and mass premium is basically because of the product specifications and I don't think that people will be down trading to because of COVID.
- Bhavin Vithlani:** Thank you. The second question is what should be the normalized ad spends that one should be looking at for the year FY21, 22 and are you actually looking to change any of the strategy given the current situation?
- Anil Rai Gupta:** Definitely a lot of strategy would change, which means the media would change and we'll have to again, as I said earlier, we will have to keep evaluating that. See if this is, this is a time where we really can't be in a position to give you a guidance of what will be the levels of everything. As I said, as an organization the first and foremost thing is to come out of this crisis with flying colors, which I believe as an organization, we've done a very decent job of that, while maintaining the value systems, for all the stakeholders, and the second thing is to constantly keep evaluating the trends. And, let's say if I say we've traditionally been spending 3.5% of Marcom would we continue to do so when normalized sales level happen it will again all depend upon what is needed at that point of time to keep the brand alive and keep the consumer expectations in mind. So whether that will be 3%, 3.5%, 4% we don't know at the present moment. I think the first and foremost thing is, that the normalized working should come at the earliest that's what we are all striving for.

- Bhavin Vithlani:** One last question if I may, some of the B2B products do you actually see an opportunity to work on the export side like Switchgears, wires, cables, etc.? So, do you see an opportunity for exports in some of your B2B products like Switchgears and wires and cables, and are you building on that?
- Anil Rai Gupta:** There is a general sentiment going towards let say anti-China, all over the world and we have to be, we have to agile in terms of taking advantage of the situation. And we are constantly evaluating all opportunities and yes, definitely there will be more focus on the international side as well as from the company.
- Moderator:** Thank you. Next question is from the line of Rahul Gajare from Haitong. Please go ahead.
- Rahul Gajare:** Sir, I have got only one question remaining. Given that we've seen, decent growth in the first nine months in the consumer durable business, and even on a full year basis, we've seen some growth over there. Could you tell us which segments within ECD have actually done well, how much fan, water heater contribute and also given that you move pumps from Switchgear to ECD, how much does pump make up in the ECD revenue?
- Anil Rai Gupta:** Rajiv, would you take that question?
- Rajiv Goel:** Yes, Fan, water heater we won't have individually. We have already talked about the ECD, the ECD growth was almost 23% in the first two months, but we don't have the separate breakup within the ECD, but you can assume the other part will be fans only. Because this is fan season which was sort of forthcoming in March, April.
- Rahul Gajare:** No, actually I was looking for the full year number not Q4?
- Rajiv Goel:** For fans and all, no the breakup will not be there, we have only ECD breakup. Rahul we won't have much breakup on that.
- Rahul Gajare:** And given that you move pumps so, it makes sense to understand, how much does pump now, contribute in ECD?
- Rajiv Goel:** Pump is still small; pump is not a significant number.
- Rahul Gajare:** Okay. And, incrementally over the next few years within ECD, which are the main drivers you think will aid revenue growth?
- Rajiv Goel:** It will be everybody, ECD is a fairly promising category, led by fans and then SDAs, if you see somebody even commented before you, that after the lockdown people are getting more conscious of how they need to stock up their kitchens and the homes matter in terms of appliances. So, we see significant drivers, we have discussed this earlier also. ECD will be the flag barrier of growth in Havells apart from Lloyd. So, we see significant growth from all including water heater, fans, small domestic appliances, even PG, personal grooming is doing

very well. Maybe there is a pent up demand because people need to groom themselves better now in terms of being home, but these trends will change, few of the trends will stay for some time now. These are not just to going away after the lockdown is lifted. So we are clearly optimistic about the entire ECD category.

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

Achal Lohade: I don't know if it is asked before, would it be possible to give us some sense about Lloyd in terms of a broader mix like what you had earlier mentioned AC was about 70 odd percent of the revenues and with respect to the mix in terms of modern retail and retail, and what has been the volume growth for FY20 broadly?

Rajiv Goel: Overall the mix is pretty much the same, maybe it had grown in favor of AC further, LED TV has been sort of very disruptive here, particularly in Q2 and Q3. Q4 is largely lead by the air conditioner. So, ACs in our view would have further gained sort of internal proportionality within the product mix. And overall also, there's a good growth in the AC as we said in the first two months the growth was almost 46% and these are normally volume growth only because there is no growth in the value but except for some product. As far as the retail definitely, I think our entire endeavor you would recall when we acquired Lloyd was also to get into the big retail chains and that had paid very well. And that is reflected in the whole year but in Q4, it really gained momentum. So, we have gained a significant share in the, what we call the modern retail chains, the likes of Reliance, Croma and other regional retail. So, their strategy is now paying the dividend while we continue to strengthen our distribution channel as well.

Achal Lohade: Would it be possible to give us some sense in terms of the mix Rajiv Ji?

Rajiv Goel: Mix when you say what, the product mix or the channel mix?

Achal Lohade: Channel mix.

Rajiv Goel: Channel mix, look the industries are almost 30-32% in terms of the modern retail or the big retail chains. I think we are almost closing in there which in my view is fairly impressive because we never expected this within few months, I think this entire facility which has gone on stream, the manufacturing facility for Lloyd, this will pay very rich dividends in time to come. The way our dealers visit, our large partners visited, I think it has played very strong positive vibes about Lloyd. And I think after this anti-China sentiment which you guys are also alluding to, and Modi Ji also yesterday, he was gung-ho about that. This will play in favor of Havells, in any case we were 93% always Make in India and with this state of the art factory, capacity almost a million ACs, we augur well for Lloyd in time to come.

Achal Lohade: And just last question, if I may, in terms of the overall company for core Havells business, what would be the mix in terms of the industrial and consumer?

- Rajiv Goel:** Industrial, we mentioned around 20-22%. So, that would be there, hopefully with this industrialization, which Modi Ji is promising after the land banks and Make in India and all the industries will also get a lag up. But you know industrial having been struggling for quite since a couple of years and consumer has been the real sort of bellwether for the businesses including Havells. So we continue to remain confident, but ultimately we are as good as the industry in terms of how it pans out. So, it is all 20-22% just to answer the question.
- Moderator:** Thank you. The next question is from the line of Garima Misha from Kotak Securities. Please go ahead.
- Garima Misha:** Just a continuation on the Lloyd question. Would you just comment on what is the proportion of online sales for Lloyd and have you seen an increase in the last two, three months?
- Rajiv Goel:** Online is fairly minimal for Lloyd. In fact, I would say it's not even a couple of percentage point because we decided that we will stay away for some time, there has been a lot of price disruptions on the online. So as of now let's assume that there is no online presence for Lloyd. However it is now we are doing a O2O model where there will be online channels through our website and it will be consummated offline. So that is something we started on a pilot basis because of the lockdown and I will say, these are initial days but this is something we will like to develop further. But, if you ask me the crude numbers then there's nothing much to talk about because we decided to be present as we speak.
- Moderator:** Thank you. Next question is from the line of Aadesh Mehta from Motilal Oswal Asset Management. Please go ahead.
- Aadesh Mehta:** Sir my questions have been answered. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC. Please go ahead.
- Bhoomika Nair:** Sir just wanted a clarification. Sir, I actually just missed the number on the level of inventory that channel would have for Lloyd and also our other product lines, given that Jan, Feb were quite strong and there was a good pickup in terms of channel inventory in those months. So how is the level of inventory now?
- Rajiv Goel:** Our view is that there will be inventory, but we see the biggest month always is March, so I think the fact that March didn't materialize in my view I think that's something we don't have too much of disproportionate inventory in the channel. So, I think channel inventory will be pretty much managed now. And I think if we see the initial trends which we are getting, though they're fairly sort of trickle right now, but whatever we gather from there, there is a demand which is there and the dealer is now sort of asking replenishment, so we don't think there is any alarming situation and if at all, I think in a few days we will see that inventory level dipping further. So, I think March in that sense, since we could not do much in the heavy lifting in March. So the inventory is pretty much controllable, should not be a concern.

- Bhoomika Nair:** Okay, and you said that in terms of the secondary sales, broadly in orange zone, it's come back to some 30-40%, whereas red zones, it would be barely anything. Would that understanding be correct sir?
- Rajiv Goel:** Yes.
- Bhoomika Nair:** And how would it be in the primary sales in the initial one week, I know it's very early, but what would be the level of normalized sales that typically happen?
- Anil Rai Gupta:** It's very early to comment on that. It's just seven or eight days.
- Bhoomika Nair:** Right. And sir just one thing on the ad spend, there was a sharp drop in Q4 and as you mentioned, it was largely the last fortnight which was impacted and Jan, Feb was fairly strong. So was it that the ad spend was very lumpy and planned closer to the end of the quarter or largely March with very limited spend, was done in Jan, Feb despite a very healthy momentum that we saw?
- Anil Rai Gupta:** It would have been lower as compared to last year anyway, because of some planned reduction not because of anything else, but maybe because it also depended upon the IPL season and the delayed season coming up in the northern part of the country. So it was, everything was a bit lopsided towards the March end and maybe bulk of that could have happened in April and May. So it is not just that the entire money would have been spent in the last 15 days.
- Moderator:** Thank you. Ladies and gentlemen, we will be taking the last question from the line of Vinod Bansal from Franklin Templeton. Please go ahead.
- Vinod Bansal:** I have very broad question, sorry if you have answered in part before but, in times like these, how do you plan the business for next six months or one year, this is a framework that you think, consumer demand will ramp up in a certain way. Also, the production planning process typically do you see labor issue, in the migration we're seeing that could be a constraint with demand fix and therefore what is the time from starting production to reaching to the consumer, both production process and distribution and thirdly, what are you hearing from the government channels in terms of part of business, governments infra spend in, etc. where do they stand on this, is this a complete washout this year given the other priority, these three, four things how are you thinking about let us say 10-12 months?
- Anil Rai Gupta:** So on the first part of the question, I would say that, frankly we are working on a lot of models and it all depends upon how things behave, demand behaves in coming months. But I reflected on this a little bit earlier as well as that the organization is very flexible. So obviously, you can't expect that today you have a factory which starts today and tomorrow you'll have 2000 workers producing 100% capacity- it does take some time, but all kinds of models are in place, depending upon how the situation comes up in terms of demand side. So supply side, internally the company is flexible and agile to take care of the entire needs. On the other parts, I believe that it is too early to say, how things from a government point of view, let's see what everybody, it will benefit the entire thing, yesterday's speech was very positive. And I feel that if the government

does what Mr. Modi has announced yesterday, I think sudden increase of enthusiasm and entrepreneurship will come in. And that will definitely spur up demand and that's, what the country needs confidence right now, people are getting used to the fact that we will have to live with this and whereas the economy will also have to be revived. So, the government is also giving similar signals. So we are quite positive about the coming times. And India, I would not say too much about Havells, but India is a resilient country where Indians are resilient, we can come back from any crisis in a much better way. And I am pretty hopeful and confident about the future.

Vinod Bansal:

Right. if I may slip in one more, beyond the small ticket consumer items like personal grooming and small kitchen appliances. Do you think everything else whether it's industrial or even small scale residential that will remain now weak for longer, our thinking has been that the government's part of business will perhaps be in squeeze, but the other construction which was small houses, etc. that is very perhaps remain fairly okay, now that we are seeing salary cuts across a lot of organizations and SME businesses also suffering quite a great deal. Do you think in all the ECD portfolio, even fans I am including would remain very weak for longer given timely demand for fans is weak, even the upgrade demand interiors, etc. for this will not happen let say for the full, even when the salaries are lower? So, ex of personal grooming, ex of water heaters, is it a scenario where maybe sharp declines for next 12 months?

Anil Rai Gupta:

I would say that let's not even think about it. Yes, the organization is ready for everything. And that's why, in my opening remarks we have also mentioned about bolstering our cash reserves by having credit line, making sure that the organization survives during this time without unscathed. But let's remain positive in the coming time, things should definitely improve if they don't, then obviously we have to be flexible enough in everything that we are doing. But if the things remain, if things come out much better, and as an organization, we are far better prepared. Somebody talked about exports, I would say, if you look at Havells, how well we're positioned to even cater to the export demands as compared to so many other sorts of Make in India brands who don't have their own manufacturing as well. So, today we have the capability whether it's Switchgear, whether it's air conditioners, whether it's fans, we have our own manufacturing where we can take operating leverage advantage and start looking at export businesses also. So, I would say again, let's remain positive not only for the company, but also for the country. And, we'll adjust to any kind of situation, we've been used to driving on roads with speed breakers. So as a country, we are much better than the rest of the world where they don't have any speed breakers, we are used to it.

Moderator:

Thank you. I would now like to hand the conference over to the management for their closing comments.

Anil Rai Gupta:

Thank you, everyone for attending this call. I think we again, wish that everybody stay safe and secure. And we hope the next time we meet there are sort of happier times and things are much better than they are today. Thank you and wish you all good luck.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.