

Havells India Limited

Q2FY16 Conference Call Transcript

Moderator:

Ladies and Gentlemen, Good day and welcome to Havells India Limited Q2 FY16 Earnings Conference Call hosted by Emkay Global Financial Services Limited. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions once the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Kutty from Emkay Global Financial Services. Over to you, sir.

Prashant Kutty:

Good evening, everybody. Thank you for joining us today. We have with us today Mr. Anil Rai Gupta— Chairman and Managing Director, Mr. Rajesh Gupta – Director Finance and Group CFO, and Mr. Rajiv Goel – Executive President. Over to you sir, for your opening remarks Mr. Gupta.

Anil Rai Gupta:

Thank you very much, Prashant. As we welcome everybody on the Second Quarter Conference Call for Havells India results. I believe the numbers and the snapshot is already available with you. It has been posted on the website a couple of hours ago and on the whole we see that we are quite satisfied with the overall domestic performance in this particular quarter and the reasons for that is though we have seen no growth in the second quarter over last. But second quarter of last year was also a very high base as compared to what we had seen from the third quarter and fourth quarter. There was a demand sluggishness which came in the third quarter and fourth quarter. But in the first quarter of this year and second quarter specially in the second quarter we are now seeing sequential improvement overall in the marketplace and I think what we are now seeing which we started seeing in the third quarter and fourth quarter that the cash flows in the marketplace were very weak but in the second quarter especially the cash we would see that the cash flow is at the trade level have started stabilizing to a major extent and the mood in the trade segment is also improving which actually should start leading to a better group in the third quarter and fourth quarter. We can see green shoots being visible; flat revenue growth has been also due to the fact that lower commodity prices have been there in the second quarter and also fall in conventional technology sales in the Lighting segment. Otherwise segment by segment we see some improvement coming in especially month over month and we are quite hopeful looking at the trend that the third quarter and fourth quarter should be a much better quarter in terms of both revenues as well as margins as concerned.

In the last six months to eight months we have put in a lot of focus on technology to connect at a retailer level whereas till this time the company had put in a lot of focus on dealers and distributors, now we are going to last mile at the retailer level so there is considerable improvement we are seeing there as well and a better connect at the retailer level. So I think all these improvements that we made in the past six months to eight months have now started showing results. The demand off take in the market we believe that the markets are still not great, but I think overall the trade segment at Havells level is concerned. We are seeing positivity there and as far as it brings in a lot of hope in the third quarter and fourth quarter for the both sales and profits. As far as Sylvania is concerned this particular quarter is also a quarter where Europe is weak because of the holiday period at August. So the slowing down of Europe as well as the fact that despite operational improvement at LATAM, we saw a

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loss due to foreign exchange depreciation particular in this quarter. If we take away these aberrations I think third quarter and fourth quarter we should start seeing improvement at Sylvania level as well. Europe will continue to remain sluggish but we should see operational profit at Europe as well and Latin America we have seen growth in the performing countries as well as profitability expansion as well. So hopefully, the way we look at it is that this FOREX depreciation has bottomed out and so third quarter and fourth quarter should start showing positive results.

With this I think we are open now for questions.

Moderator:

Thank you very much. We will now begin with the question and answer session. We have our first question from the line of Renjith Sivaram from B&K Securities. Please go ahead.

Question and Answer Session

Renjith Sivaram:

First of all how do you see the overall market panning out in the second-half? Can we look at around 10% to 15% kind of a growth at least for our Switchgears and the other major products or will it be kind of flattish for the second-half? Because second-half last year was very weak so in that context what kind of growth are we looking at? You will be having some sense on this right?

Anil Rai Gupta:

Yes, so I have heard your question. The response is I think overall we see the sequentially the performance has been improving. So the first quarter we saw almost 1,250 crores, second quarter we saw 1,350 crores. I think over this next quarter we will definitely see this kind of sales improvement coming sequentially. So definitely we will be seeing growth I do not want to pinpoint any number at this present moment because it might too early. But definitely in third quarter and fourth quarter we will see some decent growth coming in.

Renjith Sivaram:

And which segment will are you seeing more traction in terms of growth?

Anil Rai Gupta:

So, I would say the second quarter we have seen good volume growth in the Cables and Wires segment though value growth has been negative but volume growth has been double-digit. So I think we will initially see a good growth coming in Cables and Wires supported by both Lighting and ECDs and also Switchgears. I think so overall we see a start which takes space in cables and wires which is then passed on to the other divisions as well.

Renjith Sivaram:

Okay. So what will be the volume growth for Cables and Wires for the first-half if you can help us with that?

Anil Rai Gupta:

I do not have the first quarter but over the second in this particular quarter it was double-digit 16% for industrial cables and 4% for Domestic Wires.

Renjith Sivaram:

Okay. And how much was as of the overall in the Lighting we saw a good growth in the LED with 45% that means can you just help like how much was CFL de-growth if you can help us with that?

Anil Rai Gupta:

Yes, we will send you numbers separately. We do not give division by division's numbers on this call.

Renjith Sivaram:

Okay. And sir lastly on the Sylvania when do we see Europe turning back? That has impacted the overall growth so, how do you see Europe in the second-half?

Anil Rai Gupta:

Are you talking about the Euro or Europe?

Renjith Sivaram:

Europe.

Anil Rai Gupta:

Europe I think generally speaking we have always maintained that Europe growth will remain flattish. This year we are seeing de-growth in Europe especially because of the fact that we had some special projects last year but also the fact that the market is also changing drastically in the sense that lighting LED is growing fast. However traditional technologies are coming down at a very fast pace so, Europe going forward we are not estimating a growth in sales but operational EBITDA will continue to remain close to about 5% odd in Europe.

Renjith Sivaram:

Okay. But in terms of overall growth it will be kind of flattish?

Anil Rai Gupta:

That is right.

Moderator:

Thank you very much. The next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari:

Sir, my question is on the industrial cable growth that you have seen what is driving this strong growth in industrial Cable? Which industries are you seeing traction from and a follow-on that is that if industrial Cables are growing are we also seeing growth in industrial Switchgears which should be roughly similar to Industrial cable?

Anil Rai Gupta:

Yes, I think overall Infrastructure segment is showing a decent growth; yes we are seeing some increase in the sales of industrial Switchgears as well along with Industrial Cables we all as the Industrial Motors as well. So there is a little bit of traction coming in from the Infrastructure segment so which is again as I said earlier that this is a positive trend for the next few quarters because industrial demand, infra demand starts increasing then we can see some growth coming in the domestic sector as well over a period of time.

Atul Tiwari:

But any specific industries which are driving the growth I mean if you can share.

Anil Rai Gupta:

I think more on the infra side not specifically CAPEX on the industrial but more on the infra side.

Moderator:

Thank you very much. The next question is from the line of Ruchi Vora from CLSA. Please go ahead.

Ruchi Vora:

My first question was on your key product segments, can you highlight in each segment what are the company initiatives you are taking to kind of expand sales growth which are company specific not driven by the overall market mood?

Anil Rai Gupta:

I think general I would say not segment to segment I have also said that there is a lot of focus to go deeper down into the distribution. Sometime back I had said that we are moving away from a push base system to a pull base system. So I think that tying with the philosophy of having great commercial relations with our 5,000 odd distributors we have but also now going to the last mile to connect with the retailer level and not only on a relationship basis but also we see that technologically, we are connected to them so, those retailers might not be directly buying from us, but we know technologically what they are selling how much they are selling so this is last mile effort that we are doing. I think over the last eight months or nine months though demand has been slower. We definitely see in many of the product categories we have gained market share, which is a positive aspect that we can see from our side whether it is in the Switch Gear or in the Electrical Consumer Durable - Fans specially in the first six months our growth has been higher than the industry growth. So these are I would say major initiatives the company has taken is to become closer and closer to the retailer level and be far more distributed then what we have been before. There are various initiatives division by division whether it is on product technology or product improvement I think it is not really prudent to go very deep into all this in this call. So I think directionally I can say that we are going deeper in to the market share.

Ruchi Vora:

Thank you. And in Electrical Consumer Durable are there any I mean so from a product strategic perspective which are the new products that we have launched over the last one or two quarters and what is the headroom to launch newer categories over the next one year to two years?

Anil Rai Gupta:

Yes, I think this is ongoing; A lot of new model have been incorporated even in the mature segment like Fans, but also Domestic Appliances and Water Heaters so, we are definitely looking at it and we are looking at inorganic opportunities also to grow product categories within these Consumer Durable segment in the future.

Ruchi Vora:

Can you elaborate on the inorganic opportunities?

Anil Rai Gupta:

No, not at this present moment.

Ruchi Vora:

Sure. And last question on your EBITDA margins we have seen a consistent improvement in your margins for various reasons just wanted to hear your thoughts if this trajectory of improvement will continue over the next few quarters or we are pretty much at a margin level which is optimal from a product mix perspective.

Anil Rai Gupta:

I think for the last two or three years I have been answering this question and people have been asking us whether these machinery have been sustainable especially in switchgear segment and we have always said that they are sustainable and there is obviously skepticism around that I think the fact is that we have not only been maintain those margins, but we have been improving

upon on that a lot. Actually we can talk about commodity prices and these kind of things but frankly there is a lot of internal discipline both on the cost side as well as the marketplace which is contributing to increase in margins in many of the product segments. There have been some fluctuations in the margins in the Lighting and Electrical Consumer Durable segment over last few quarters and that is also because of the fact I think these are fairly new and non-mature category for example Lighting had LED's coming in, ECD's had new product coming in like Domestic Appliances and Water Heaters over a period of time. So we can see some fluctuation there but generally speaking the company is very focused on maintaining a particular margin and if you ask me whether there is potential to grow these margins I would say there is always potential we might or might not want to do that and continue to focus on expanding sales these fairly decent margins that earnings have for our product division.

Ruchi Vora:

Sure. And just last question sorry for the many questions. But I was keen to hear your thoughts on Sylvania we have had our set of challenges in that business due to the overall difficult macro in Europe and LATAM. From, as a business leader, just wanted to hear your thoughts on how do we see that business as a part of Havells over the next couple of years? And that keeps on depressing our overall consolidated bottom-line. So I just want to hear your thoughts on if they are looking at addressing this, I mean how do you look at this thing?

Anil Rai Gupta:

I think overall as far as Sylvania is concerned though the macro economic conditions have not been great in last couple of years. One is Europe has been sluggish. Two, Latin America was last though growth market and emerging market. Latin America was also affected by FOREX depreciation/the foreign exchange depreciation, so it was affected by that. I think as I said this kind of situation is bottoming out. We are seeing something positive over the last couple of years, so you can also see that we have tried to rationalize our cost structures over a period of time and we have deleveraged the company to a great extent. Even during this tough time, during last one year we have deleveraged from €56 million of our €27 million, so I think this you can very well see that the overall direction of the company is to make it very-very self-sustaining as a business and all these changes which are happening due to change in technology to ride through this time in a much better and easier way, so that it remains profitable as well as deleveraged, thus it remains self-sustaining and not look at possibilities of investment of funding from Havells.

Moderator:

Thank you very much. We have the next question from the line of Chockalingam Narayanan from Deutsche Bank. Please go ahead.

Chockalingam Narayanan:

Sir, if you can elaborate a little bit on the demand front you were talking about is it more because your penetration levels have increased or your market share gains have been better or is the market in itself is starting to see some better signs?

Anil Rai Gupta:

Well I think overall we can see in some of the product categories we are definitely seeing, we are doing better than the market and one of the reasons could be deeper market penetration but it is still very early days to say we have seen flattish growth over last couple of quarters and I think why we are positive is that we are seeing sequential improvement month-on-month and quarter-on-quarter. So I think we will review it again at the end of the quarter at the end of the third quarter how we have fared in terms of market share and see what kind of activities have borne results, given results to us in the improving our market share.

Chockalingam Narayanan:

But if you can elaborate, if you can at least dissect between value and volume in terms of the growth and also if possible geographically that will be really helpful?

Anil Rai Gupta:

Difficult to give on this call. I have already mentioned that measure difference in value and volume growth comes in Cables and Wires. So Cables and Wires as a segment de-grew by 5% but volume growth has been close to about double-digits.

Chockalingam Narayanan:

If you can give on geography that will be really helpful.

Anil Rai Gupta:

Cable, actually there is no geography.

Management:

Are you talking about geographically for Cables and Wires?

Chockalingam Narayanan:

No. At the overall business level, is there any particular geography where you are seeing across...

Anil Rai Gupta:

No, nothing in particular. Not any particular geography which has given better performance basically, Yes. .

Chockalingam Narayanan:

Okay. And second thing on Consumer Durables, we have seen a little bit of a slowing down of growth, you mentioned that on the infra side you are seeing some pick-up, is that being offset to form extent by consumer demand side or what?

Anil Rai Gupta:

I think to some extent you can say that the season has been delayed in this segment. So the quarter last year, Diwali was much closer to the end of the second quarter, whereas Diwali is in the middle of the third quarter in this time. So there is some trend or some shift of sales towards the third quarter but I think you will start seeing from the third quarter itself that there is no particular trend here that we are seeing.

Chockalingam Narayanan:

And the margins there are slightly lower, is there higher discounts so anything will that sort? Or it is just a product mix?

Anil Rai Gupta:

No, I was always maintained that the company is always focused on pricing discipline in the market. This particular abbreviation is also due to the fact that during this period, our new plant has come up with Water Heater and in initial phases there were some under-absorption of, under-utilization of the plant. I think, over the next couple of quarters you will see that these margins will be coming back.

Chockalingam Narayanan:

Sure, thanks a lot sir. And one last question, CFL business, what was the investment that we put in till date? And is there any change in estimated useful life for which you love to take a write-off or something at some point in time?

Anil Rai Gupta:

We have to estimate this and we will inform you over a period of time.

Moderator:

Thank you very much. We have the next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade:

Couple of questions, one I knew you have kind of indicated that you do not want to pinpoint, looking at the first-half do you imagine to see a positive growth for the full year for standalone business, sir?

Anil Rai Gupta:

I have also definitely said that we are looking at a decent growth in the second-half, so that does mean that we will be looking at positive growth in this whole year.

Achal Lohade:

Sure. And in terms of the CAPEX, I wanted to understand what would be the current utilization of our manufacturing facilities? I know tough to give product wise, but broadly, would it be beyond 70% or up to 70% kind of range?

Anil Rai Gupta:

No. Only for in case of Cables and Wires, it would be beyond 70%, rest will be all below that.

Achal Lohade:

Got it. So in terms of CAPEX, I wanted to understand your perspective how are you looking at for the current year?

Anil Rai Gupta:

I think, this year we are looking at about 130 crores to 150 crores, maximum we have already spent 77 crores in the first half, and a maximum of 130 crores to 150 crores in this year.

Achal Lohade:

And any particular segment you would like to highlight, where the incremental 80 crores will go into sir?

Anil Rai Gupta:

Cables and Wires, we are putting up a facility for extra high voltage and the major CAPEX has gone in this year in Cables and Wires itself.

Achal Lohade:

Got it. And just last question sir on the advertisement cost, I understand that there is a reduction in the advertisement cost because the season got shifted to 3Q. But at the full year level, how are you looking at advertisement cost budget, sir?

Anil Rai Gupta:

I think same as we had communicated in the past that we will be looking at same percentage or revenues about 4% of non-cable revenues.

Achal Lohade:

Non-industrial Cable or...

Anil Rai Gupta:

Non-industrial Cable, so it is about 3.5% of the overall revenues.

Moderator:

Thank you very much. We have the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:

On Lighting, I had a question that when do you think the LED segment becomes large enough to offset the decline in the traditional business and you start seeing some reasonable growth in the Lighting segment? And also is it that the margins will keep going down here because LED is more competitive than the earlier business?

Anil Rai Gupta:

No, I think this is a transition period. So first of all, your question is that we are seeing flattish growth in Lighting, though LED sales is growing by 88%. So you can see that 45% now is coming from LED Lighting. So the shift in Lighting is happening at a faster pace than what the industry was anticipating and I think now we are quite well equipped to take benefit of that. And over a period of time, we will see similar growth coming in Lighting as compared to the other divisions as well. As far as margins are concerned, if you see sequentially we have improved margins, last particular quarter there were certain changes in the MRP rules and VAT rules as well. So the margins had come down. We have maintained that sequentially we will continue to improve upon that and I think over a year or so we might be seeing similar margins as what we had been seeing in the Lighting in the past as well. But sequentially, we will continue to improve margins well.

Arnab Mitra:

Right, sir. And on the balance sheet part, I just want to understand there has been increase in both inventory and receivables while sales have kind of been flattish Y-o-Y, is it mainly to do with the fact that around September festive season there is an increase normally? Or any other reason one can look at this in the standalone balance sheet?

Anil Rai Gupta:

Well if you are comparing with the inventories, the March inventories yes, there is an increase but this, if you compare it with September last year, there is actually a reduced inventory. So in fact, inventory is a little bit better managed as compared to last year. March is normally the one of the lowest inventories because of the year-end sales which has happened. But I think, right now, the inventory levels are at a normalized level.

Arnab Mitra:

Right. And one last question, In Sylvania, is there likelihood of a write-back in the pension liability because the bond yields are now higher than what it was in the beginning of the year? And normally, is it the third quarter when you adjust for that?

Management:

Yes. I think as you know the quarterly adjustment we do not make unless you see it is on the decline side. As you rightly mentioned, we have certain uptick and a credit there but as of now we will only assess on December which what we do customary in past years also just to retain consistency in the reporting.

Arnab Mitra:

Right. And any sense of what is the kind of credit based on the current bonded yield levels?

Management:

I think, I would not like to comment because it became a bit speculative and just like sharing the information so I think we will only do it in December and that time we will compute the same.

Moderator:

Thank you very much. We have the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani:

I have two questions. Firstly, I wanted some more information on your SwitchGear segment, if you can share how much was the growth in the Industrial Switchgears and Domestic Switchgears in this quarter?

Anil Rai Gupta:

Well we do not specifically give growth on product side. I think we will focus on the switchgears segment as a whole.

Gunjan Prithyani:

Sure. So the reason I am asking is, this segment is the only segment which has actually de-grown in this quarter. So we have seen improvement across all except for Switchgears segment and it has remained weak for the past couple of quarters. So I just wanted to get a sense, how do we see the growth rates trending in this segment ahead and also on the contribution margins, you have mentioned that the improvement has been driven by more policy discipline, if you can just elaborate on what this policy exactly is?

Anil Rai Gupta:

No, I would say two things. One is that the Switchgears yes, because of the high base in the last year same quarter you can see muted growth in the Switchgears in this segment. But we are definitely expecting third quarter and fourth quarter, Switchgears sales to be growing at a similar pace as the other divisions would be growing. And I mentioned two reasons for increase in contribution margins, one is the cost rationalization which is a continuous exercise at our place and also market discipline improvement that we have been seeing so, that the discounting becomes a very parity kind of a discounting at the market place. As I said, we want to go deeper and deeper into distribution and hence, we needed to make certain adjustments in the overall policy at the market place so that there is a lot of parity and clarity on the positive front which has contributed a little bit to the improvement of margins as well.

Gunjan Prithyani:

Okay. And sir, in this growth what you are seeing green shoots of recovery; basically which you were saying - is it only in the industrial segment or you have seen that in domestic segment as well?

Anil Rai Gupta:

I think if we do not look at the entire quarter, in the last couple of months, sequential improvement is showing in the domestic segment as well.

Gunjan Prithyani:

Okay. And just one more question, in press interaction you had mentioned that you are looking at acquisitions in India. Can you throw some light on what kind of acquisitions are we looking at? Will it be to add a new segment or a new product or will it be in The Electrical Consumer Space, if you can just throw some light on this?

Anil Rai Gupta:

Well philosophically, the company has been based on expanding brand and distribution and I think any acquisition which would give an access to a brand or enhance distribution or enhance product category which takes advantage of the brand and distribution, I think these are the kind of acquisitions that we look at. And without going into too much details of this, this is the philosophy behind any acquisition.

Moderator:

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

Aditya Bhartia:

Sir, in the last quarter you had indicated that there could be some expenses on account of restructuring in Sylvania. Has there been any such one-off charge in Q2? And do you expect any such expenses to occur in the next few quarters?

Anil Rai Gupta:

It is difficult to say about next two quarters but there is no specific charge in the second quarter.

Aditya Bhartia:

Okay. So you might be considering some restructuring exercises going forward?

Anil Rai Gupta:

We cannot say at this present moment.

Aditya Bhartia:

Sure, sir. And on the competitive intensity side with slowing growth, are you seeing competitors becoming more aggressive? And do you think that has the potential to reduce industry wise pricing?

Anil Rai Gupta:

No. I think Havells has always been in that segment where we depend upon our brand and product features to go to the customer. And hence, we always maintained that in our product category, the consumer is not as price sensitive as what it normally perceived to be. And hence, we have maintained very similar margins over the past many years. So I do not think, the competition intensity has been increasing over the past many years. So it is not something which is new at this stage and also the slack demand has also been there for almost one year. During this entire period, our margins have been quiet stable so, I do not see this as a concern at all.

Aditya Bhartia:

Okay. And lastly sir, the sense your getting is that real estate market is remaining very slow, in that context, if Havells's growth likely to be driven mainly by market share gain?

Anil Rai Gupta:

So yes, I would say market share gain as well but as that said that in the last couple of months we have seen some improvement in the demand cycle as well which hopefully if it continues could be good for us because we are focusing a lot on our reach and distribution enhancement and our connection to distribution. So I think overall, it is difficult to say whether it will be only out of market share gain or can we factor of both.

Moderator:

Thank you very much. We now have a follow-up question from the line of Chockalingam Narayanan from Deutsche Bank. Please go ahead.

Chockalingam Narayanan:

Yes, hi. Sir on the recent Promptec acquisition how is that faring versus your expectations, I know it is early days but if you can throw some light over there?

Anil Rai Gupta:

I think it is still very early days. We are using definitely Promptec as a technology base for upcoming products. But what we found after the acquisition was that their capabilities can be expanded not only for Lighting but also into other product categories because of their focus on

the electronics. So we are definitely looking at future possibilities using Promptec R&D capabilities for the next level of product categories - coming into Havells maybe a lot of things, building smartness and intelligence into all our product categories. So that way Promptec acquisition has been a good acquisition in terms of technology. But I think it is still very early days to talk specifically about the product that they sale. There has been sales improvement there and if you ask me the question, yes, definitely we are quite satisfied with the outcome of the acquisition.

Chockalingam Narayanan:

Would you be able to put any number in terms of the top-line?

Anil Rai Gupta:

I think last year they were close to about 32 crores. This year, anywhere between 50 crores to 60 crores we are looking at.

Chockalingam Narayanan:

And we are tracking that already?

Anil Rai Gupta:

We are tracking that already.

Chockalingam Narayanan:

Okay, fair enough, sir. And the last thing, if you were to split your businesses between consumer and industrial, what would have been the revenue growth in industrial and consumer for this particular quarter or particular half?

Anil Rai Gupta:

Particular quarter, we will see definitely industry is going at a faster pace including infra. So yes, and domestic as I said, the overall base was very high last year second quarter. But I think in the third quarter and fourth quarter, we will see growth coming from both the segments.

Moderator:

Thank you very much. Next we have a question from the line of Venugopal Garre from Barclays. Please go ahead.

Venugopal Garre:

Sir, firstly, just a quick one on the Standard brand, I mean last year we had sort of introduced Fans under that brand and just wanted to know how are things panning out with respect to that particular strategy and anything yet adding new product ranges under the standard brand?

Anil Rai Gupta:

I think the next focus for the company will be to put a lot of focus on the Standard brand. We definitely see this is a big potential coming in for the future growth for the brand and that is why the corrective actions I think in the policy for distribution which we had put in into the Havells brand in the third quarter and fourth quarter, we put in those similar improvements and practices in Standard brand also in the first quarter and second quarter. And I think whatever pain we had to take, we have taken that which should now pay good growth possibilities for Standard in the coming future. We have introduced new product categories like Fans, Switches also, Wires also in the past and now there will be a specific campaign to expand the brand awareness for Standard as an independent brand. And we are putting in some investment in the coming six months into the brand separately for Standard as well. So over the next one year or two years, we should separately get good growth possibilities from the brand.

Venugopal Garre:

Sure, sir. On the CAPEX front 75 crores is what is less for the second half in terms of investment, so which areas are these being put into?

Anil Rai Gupta:

As I said, overall if you look at the whole year almost 40% of the CAPEX has gone into Cables and Wires segment which is a new facility that we are putting up with higher or extra high voltage cable which should be operational in next couple of months.

Venugopal Garre:

But this extra high voltage is what the target market for this, this will be going into the distribution transmission side?

Anil Rai Gupta:

So yes, transmission and distribution but more on the higher let us say up to 66 KV. This will also have a possibility to go up to 132 KV but right now the company's focus and the company's market will be more of the 66 KV. We are already into 66 KV but in a very small way did not have any capacity on that so we have now built up this capacity.

Moderator:

Thank you very much. Our next question is from the line of Vijayraghavan from Spark Capital. Please go ahead.

Vijayraghavan:

Sir, out of our total Lighting revenues in the first half, how much is contributed by LED specifically?

Anil Rai Gupta:

About 45% in the second quarter, 45% is LEDs. I am not really sure about the first-half but 42 in the first, yes.

Vijayraghavan:

42% in the first-half?

Anil Rai Gupta:

Yes.

Vijayraghavan:

Sir, does it include the revenues from the ESL project sir or it is purely from B2C?

Anil Rai Gupta:

Purely B2C.

Vijayraghavan:

B2C, right?

Anil Rai Gupta:

Yes.

Vijayraghavan:

Okay, got it. Sir, second thing is basically on recently you commissioned dedicated service center for Southern states specifically and you launched a flurry of Switchgears products, can you throw some light on that? Basically, can you talk about what this product means for Havells in terms of technology or in terms of range? Can you give some insight on that?

Anil Rai Gupta:

Well I think we are the leaders in the domestic Switchgear category MCB and we have been always been working very aggressively on introducing new and new designs so that there is a freshness in the market place for the consumer as well. So the product that we have launched which is now known as the Euro -2 MCB, is an MCB which by far going to be best MCBs in the country. Though our earlier MCB also was very well-accepted by the consumers but it has a lot of technological advantages and that has been launched in all markets over the two months or three months. So South has seen a launch of these products in the last couple of weeks so that you might be referring to. Basically, it is to continue to remain as leaders not just in terms of brand and distribution but also on the technology side.

Vijayraghavan:

Okay. Sir, we also stated that we are targeting close to some 450 crores of revenues from this product, am I reading it right, sir?

Anil Rai Gupta:

That is right. Our right now revenues are close to about similar to that but it is a replacement of the old MCB.

Anil Rai Gupta:

So it is substituting.

Anil Rai Gupta:

Yes, it is substituting the old product.

Moderator:

Thank you very much. We have another follow-up question from the line of Chockalingam Narayan from Deutsche Bank. Please go ahead, sir.

Chockalingam Narayanan:

You mentioned about the change in the channel strategy. Now what proportion of your sales today happens from the retail directly? Or you still have to go through the distributor or how is it if you can talk about that?

Anil Rai Gupta:

Our entire sales is through the distribution channel only, so we have 5,000 dealers and distributors all across the country and they further sell to the retailers. So there is no change in that position.

Chockalingam Narayanan:

But you have said that you have moved a little deeper with the retailer. So has the retailer count increased?

Anil Rai Gupta:

Yes, the retailer count is increasing on a regular basis. We already now have close to about 80,000 retailers who are directly signed with the company and we will be tracking over a period of time the sales that they will be doing.

Moderator:

Thank you very much. We now have a question from the line of Prashant Kutty. Please go ahead.

Prashant Kutty:

So just one question over here with regard to the urban rural growth or the Tier-I, Tier-II growth, any trends over there as far as how the growth trend has been?

Anil Rai Gupta:

No, I do not think we will be able to specifically give you any guidance on that.

Prashant Kutty:

Okay. And I am sorry, just one clarification, did you say that as per Sylvania operations are concerned looking at in the second-half what about 5% EBITDA margin?

Anil Rai Gupta:

No, so all I am saying is that the European operational performance will continue to be around that. But this is a sort of medium term thing; we will see how this next six months pan out.

Moderator:

Thank you very much. Our next question is from the line of Fatima Pacha from ICICI Mutual Fund. Please go ahead.

Fatima Pacha:

Sir, two questions, firstly domestic side I do not know if you are giving any guidance anymore but are we saying that this year because of the general consumer slowdown, you had a flattish year?

Anil Rai Gupta:

We had a flattish year till the first-half but we are definitely expecting a decent growth in the second-half. I think we will wait for another quarter to go buy to see how it pans out.

Fatima Pacha:

This month has given you a lot of confidence?

Anil Rai Gupta:

In last couple of months, we have seen sequentially things improving. So yes, it does give us confidence.

Fatima Pacha:

And the durables what unusually slowed in Q2 is, is it just to the Diwali season change or...

Anil Rai Gupta:

Yes, it is more of a seasonal shift.

Fatima Pacha:

But the water heaters from your own plant did not give the additional boost.

Anil Rai Gupta:

No, so which will now start giving the boost in this particular season, yes.

Fatima Pacha:

Okay, fine. And sir on the Sylvania side, I whatever interaction that you had that we are good as long as it does not make a cash loss, right. So FY15 also I think it did not make a cash loss as you did not need to infuse money from Havells India into Sylvania. This year it does not look like it is going to be as smooth so what is our strategy? Are we into that game that even if money is needed to be put and we will and we want this business no matter what?

Anil Rai Gupta:

It is not that. Every business has to make fundamental and financial sense and strategically over a period of time we definitely going through a period where there is technological change in this business. So there will be tough times but I think it is not a question of completely being

dispassionate about this business. So we are very clear that the company is at that stage where it will require a little amount of effort to make it grow as well as grow profitably. So those efforts will be put in. We do not see in the medium-term any requirement of funding from Havells. This we have maintained and this will continue to be so. I think as we have said that these losses that we have seen in last couple of quarters have been quite extraordinary in this case and we see operational improvement coming in from Latin America which is close to about 40% of the business. So we are quite hopeful that the company should be making positive cash flows which should be good enough for their sustenance.

Fatima Pacha:

Sir, only fear is that this domestic competition is just heating up and the fear is that with Havells maybe management concentration being 50-50 between Havells and Sylvania maybe you do not lose the India business, you are like number one by a mile, right. They are just fearing that would that defocus you all for some reason if Sylvania something happens because we have seen what has happened with acquisition with other companies in Europe space, right?

Anil Rai Gupta:

So Fatima let me just clarify here. Sylvania's history is not new here and I think the best time for Havells growth has also been the time has been Sylvania was in this deepest crisis. So in 2009-2010 while Sylvania was coming out from a deep crisis, Havells growth continue to remain so because we believe both in Havells and in Sylvania, we have a very professional management. The management at the top was giving direction and guidance on the strategy front, but we have a very strong execution team both in Sylvania as well as in Havells. And that will continue to remain so. And I do not agree to this fact that the competition has recently started heating up. The competition has been there for the last 10 years or so and that has always been there and Havells has continued to perform. Because of the philosophy that we are maintaining, because of the strategy that we are maintaining and because a very strong execution team that we have all across the company both in Havells and Sylvania, so I do not see any fear from that side.

Fatima Pacha:

Okay. And do you really think Sylvania will add so much to the table for you for a mind space as in structurally I am saying.

Anil Rai Gupta:

Well I think Sylvania is a large part of our business and whether you like it or not, it is a big distance away from us, so it is 6,000 miles away at least from us. So I do not know whether it occupies a same amount of mind space in our minds as Havells does but that also given us the confidence that we have been able to create a good team at Sylvania so that while remaining away from us also that we are able to manage it well. So I do not think that is again a concern for us.

Fatima Pacha:

I know but I am just asking, what will be the structural thing that Sylvania is getting to you on the table?

Anil Rai Gupta:

Well it is as I said large part of our business, it gives us big Lighting footprint as well as an international footprint and we have already said that as from that point of view, we are not only emotional investor but are also prudent financial investor, our returns on capital in all our businesses have been quite good. So, every business that we are in whether it is a domestic businesses or the Sylvania business, we will continue to give a decent return on capital that we employ there. So that is something on the cards, just because the business is not doing well for a particular period of time there is not mean that you start thinking of it in a negative fashion. We have to look at the medium term and long term prospects as the company.

Moderator:

Thank you very much. We have a follow-up question from Prashant Kutty right now. Please go ahead, sir.

Prashant Kutty:

Yes. Sir, I just had one question with regard to you just said we have been green shoots and I guess large part it was visible in the industrial segment. Is there fear of some bit of pressure in interim as since the margins are concerned on account of that given the fact that the consumer margins are better as compared to the industrial segment?

Anil Rai Gupta:

No. So I do not see any why the margin should be under pressure.

Moderator:

Thank you. As there are no further questions, I will not hand back the call over the management for any closing comments.

Anil Rai Gupta:

Thank you very much and thanks for joining in this conference and wish all a very Happy Diwali.

Moderator:

Thank you very much. On behalf of Havells and Emkay Global Financial Services, that concludes this call. Thank for joining us and you may now disconnect your line.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.

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