



“Havells India Limited Q4 FY16 Earnings Conference  
Call”

**May 12, 2016**



**MANAGEMENT: MR. ANIL RAI GUPTA – CHAIRMAN & MANAGING  
DIRECTOR, HAVELLS INDIA LIMITED  
MR. RAJESH GUPTA – DIRECTOR (FINANCE) & GROUP  
CHIEF FINANCIAL OFFICER, HAVELLS INDIA LIMITED  
MR. RAJIV GOEL – EXECUTIVE PRESIDENT, HAVELLS  
INDIA LIMITED**

**MODERATOR: MR. HARISH BIHANI – KOTAK SECURITIES**

**Moderator** Good morning, Ladies and Gentlemen, Welcome to the Havells India Limited Q4 FY16 Earnings Conference Call hosted by Kotak Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like hand the conference over to Mr. Harish Bihani. Thank you and over to you, sir.

**Harish Bihani:** Good morning, thank you for joining the call. We have with us the Senior Management of Havells India lead by Mr. Anil Rai Gupta – Chairman and Managing Director; Mr. Rajesh Gupta – Director (Finance) & Group CFO and Mr. Rajiv Goel – Executive President. I will now hand over the call to Mr. Gupta for his opening remarks, post which we will open the floor for Q&A. Over to you, sir.

**Anil Rai Gupta:** Thank you, Harish. Good morning, everybody. As a short prelude to question-and-answers, I would say that Q4 has been a positive quarter both in terms of revenues and margins. The growth has been across segments as has been the margin improvement. We are exiting FY16 on a positive note and we remain confident that aided by economic revival we should continue with the sustained growth. Sylvania divestment is a key event during the year, it has been realized, it has realigned our focus on Havells and domestic markets.

With this comment I would now open for questions.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Mr. Ranjeet Shivram from Antique Stock Broking. Please go ahead.

**Ranjeet Shivram:** Sir, just wanted to know, from the last couple of quarters you have stopped giving any guidance for your domestic business, so have you changed, is it possible to give or help us with some direction like how much of growth are we expecting for FY17 given the scenario?

**Anil Rai Gupta:** No, I think it is not right for us again to give very specific guidance, but what we are looking at is and I just said that the second half of the year looks much better than the first half. Overall if you see the domestic business has grown by about 9% in the second half which is definitely showing that the green shoots that we have started seeing in the third quarter and the fourth quarter have started showing some results. I would not say that the economy is on a big revival path, there are still some positive trends that we are seeing and they could be much better in the coming year as well. So we are definitely looking at a very positive year which could mean much better growth than what we have achieved in the last year in the domestic market.

**Ranjeet Shivram:** And sir when I subtract the consolidated from standalone what the number I arrive is that the performance of both Brazil and Thailand facilities or is it something else?

**Anil Rai Gupta:** So this is the performance of Brazil and Thailand as well as Promptec, so Promptec is a smaller number. So basically we can say that Brazil and Thailand are also now breaking even, so that is the number.

**Ranjeet Shivram:** Because when I subtract its coming 2,200 kind of revenue numbers for FY16.

**Rajiv Goel:** Actually, these include nine months' full consolidation for Sylvania and three months only for Brazil, Chile, Thailand and USA. So I think the numbers are not very comparable so we will ask you not to evaluate that because see 80% of the Sylvania business has seized to be irrelevant for the discussion now. But yes for the purpose of consolidation since till December of last year Sylvania used to be wholly owned by us we had to consolidated the whole part of that and for the quarter we have only consolidated the remaining subsidiaries.

**Ranjeet Shivram:** So what can be the likely revenue, because even in your investor update you have only given the 4Q of Brazil and Thailand, so what will be the full year numbers for that?

**Rajiv Goel:** Brazil and Thailand, you could look at something like \$20 million for the year for both the businesses, our focus in both these businesses would be to maintain financial stability and ultimately transfer them to Feilo what has been our agreement with them. So the whole idea is not to drive the sale but to see focus on the profitability in this business.

**Ranjeet Shivram:** So €20 million should be the number which we should be looking at?

**Anil Rai Gupta:** Correct, I will say \$20 million.

**Ranjeet Shivram:** And finally, was there any difference in terms of geography, like was south much better because the festival activities in this quarter in south is more, so did you see any difference in terms of your sales also, south is more and north is a bit muted in your overall quarterly in the domestic market?

**Anil Rai Gupta:** No, I think it is fairly distributed, though I would add here that south had been a little bit slow during the last one and half year or so, but for the last six months it has started picking up. So I would not say that it has done very different than the other markets but the weakness which we had seen in south is not coming back to strength.

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

**Aditya Bhartia:** Sir my first question is on the switchgear segment wherein we have seen muted revenue growth both I fourth quarter as well as for the full year. Sir what is the reason for the same and how do you see growth picking up in this segment?

**Anil Rai Gupta:** See, I think generally if you see the switchgear segment is a lot related to the building activity, the construction activity in the country and I think though it is a little bit better in the second half

but still we do not see a complete revival in this segment and it will take some more time. So the entire focus is on how we can continue to expand our reach throughout this period, continue to invest in the brand and maintain the margins or improve the margins. So I think this is a period where despite being a very tough period I think in the construction industry we still have done well, especially in the second half of the year.

- Aditya Bhartia:** Sir, in your assessment would you have gained market share in this particular business?
- Anil Rai Gupta:** I think if we look at the second half yes definitely we believe that we would have gained market share.
- Aditya Bhartia:** And lastly sir, if you could give us some insights as to what could be the split between new construction and renovation or replacement demand in each of the segment?
- Anil Rai Gupta:** You see, as you know that our entire sale goes through dealer channel and it is not generated from projects by our sales teams, it is an indirect demand which our people create. So it is very difficult to estimate this breakup.
- Aditya Bhartia:** any broad assessment that you might be having? Like in switchgear you mentioned that its largely new construction, would it be the same for let's say even cables and wires?
- Anil Rai Gupta:** Yes, mostly it is new construction.
- Aditya Bhartia:** And fans I guess would have some replacement demand as well, fans and lighting?
- Anil Rai Gupta:** Yes.
- Moderator:** Thank you. Our next question is from the line of Atul Tiwari from Citigroup. Please go ahead.
- Atul Tiwari:** Sir in response to an earlier question you mentioned that FY17 is likely the growth rate which is likely to be much better than in FY16. In FY16 very understandably the growth rate was just about 4% in the domestic business, so I mean could you give us some more color on how much better it could be, I mean are we looking at high single-digit, low double-digit kind of growth in FY17?
- Rajesh Gupta:** Yes, I think our target is to definitely bring it back to double-digits, we would be a bit disappointed if it is high single-digits.
- Atul Tiwari:** And sir in this quarter the growth rate in lighting segment has been very-very strong and the release mentions that it has got to do with high growth rate in LED business, so could you give us some more color how much of it came from LED and how much from the traditional business, etc?

**Anil Rai Gupta:** Well, today the growth is entirely in the LED segment, today 50% of our lighting is now coming from LEDs. I think it would not be right to just see a quarter number, what happens is sometime because a lot of this demand goes into municipalities as well as government projects a lot of gets translated into last quarter. Now you might say that even the last year same quarter over that we are viewing this growth, but last year was a different year, last year second half was actually a very low year as well and the year ending quarter was not also on a very high note. So I think the base effect could be a little bit here, but there is definitely a faster growth coming in LEDs so we are quite hopeful of the LED segment, except that it is being muted by the de-growth in the traditional lighting segment.

**Atul Tiwari:** And sir has the Company been participating in the government bids which Ministry of Power is inviting, I mean is that on the target list for LED supply or you are completely out of that segment?

**Anil Rai Gupta:** Yes, I think there are again two parts to this business in the government supplies, one is very commoditized kind of a lamp kind of a business and the other is a little bit more technology oriented where street lights some sort of technology requirement is required and it is I would say more margin oriented than just numbers oriented. So we are focusing on that part of the business rather than just a commoditized part of the business.

**Moderator:** Thank you. Our next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

**Gunjan Prithyani:** Couple of questions, firstly on the margins sir. It has been a great year this FY16 and if I look at next year we have royalty savings also coming through, so do you see that these will be passed on to the end consumers or we will see this 50 to 60 basis points margin improvement coming through next year, I mean in FY17?

**Anil Rai Gupta:** I think in our overall financial target we hope to maintain this year's margins and of course the benefit of the royalty would be coming in and we have not factored that in. When you say would it be passed on to the consumers, generally there is a lot of, I think it is very difficult to say what is passed on and what is not passed on but we will try and hold on to this addition in the margins.

**Gunjan Prithyani:** So your guidance on margins has typically been 13.5% to 14%, so should we see that this should now be upwards of 14% next year?

**Anil Rai Gupta:** Yes, I would say if we take away the royalty part then of course we will be looking between 13.5% to 14%.

**Gunjan Prithyani:** And sir secondly on the cash flows, now there have been couple of announcements of you looking to set up manufacturing facilities, so how should we look at CAPEX going into FY17 and the dividend payout of course this year was much higher and almost about 50% payout, so

should we assume that it is going to be around 50% at least till we take a decision on the deployment of cash for any acquisition?

**Anil Rai Gupta:** Yes, so first of all our dividend policy continues to remain between 40% to 45% and I think this year also it was around that number. The special dividend that we had paid was on account of the divestment of Sylvania and hence we will continue to remain with that policy. This year there will be higher CAPEX than normal CAPEX in last few years because we will be investing for the next three to four years in capacity building. And as you know almost 40% to 50% of our CAPEX goes into creating land and building, so because now we would need more land and building so this year it will be a higher CAPEX so we estimate somewhere between Rs.260 crores to Rs.280 crores in this year.

**Gunjan Prithyani:** And anything for FY18 should it be similar range or lower?

**Anil Rai Gupta:** FY18 should be lower.

**Gunjan Prithyani:** And in your internal planning what are the CAPEX, I mean which segments are we committing the CAPEX to now?

**Anil Rai Gupta:** I think now we would as we have been saying in the last two or three years that we have build capacity for the next few years so we will be now adding more capacity in cables and wire segment, in the switchgear segment as well as the ECD segment.

**Gunjan Prithyani:** Not on the LED side?

**Anil Rai Gupta:** LEDs, I think for the next one year or so we should have enough capacities, so not major investment this year.

**Gunjan Prithyani:** And one more question just on the demand basically, so we have seen lighting and cables do reasonably well this year, is there any difference in the demand drivers for these segments and switchgear or ECD segment because if cables is picking up which domestic wires which is typically driven by new construction, switchgear should also follow. So why is the disconnect there or you think switchgear should follow the cables growth?

**Anil Rai Gupta:** First of all, the cables and lighting part of that business also is driven by the infrastructure and industrial investment, so we have seen an uptake in the infrastructure investments this year so that is where I think the major growth is coming from in cables and lightings. And I think switchgears and consumer durables, as I have said in the second half have started showing some traction which we hope that it will continue in the coming year as well.

**Gunjan Prithyani:** And sir last question on lighting, how much would be project and consumer, just broad percentage?

- Anil Rai Gupta:** So as of now we do not do any projects except the government order that we have taken, so this year present lighting it is not considered because there was no sales last year in the projects business. So this is all entirely either as per the industrial demand, infrastructure demand as well as the consumer demand. So there is no project business in this.
- Gunjan Prithyani:** So infrastructure would still be 40% - 50% of the total mix?
- Anil Rai Gupta:** No, when we say infrastructure no, I would say very small out of this.
- Moderator:** Thank you. Our next question is from the line of Fatima Pacha from ICICI Prudential. Please go ahead.
- Fatima Pacha:** Sir, great cost rationalization and very good EBITDA growth for the quarter. Sir just wanted to know the gross margin expansion that we have had this year has been around 200 bps if I just see year-on-year for FY15 over FY16. But lately commodity cost increases at the margin, are we seeing that we can maintain this gross margins, as in we have taken price hikes to offset whatever little commodity price changes that we have seen?
- Anil Rai Gupta:** Yes, I think part of this is not coming just because of raw material prices, part of this is also due to cost efficiencies that were brought in into the entire ECD, a lot of initiatives have been taken. Yes, some of this might get wiped off because of the higher commodity prices but other than cables and wires business is generally not so much attuned to, not so much related to the movement of the commodity prices, so it is only in the cables and wires segment. Wherein I think there might be some reduction in the margins but overall we are quite hopeful to maintain the same margins.
- Fatima Pacha:** The gross margins you are saying?
- Anil Rai Gupta:** That is right.
- Fatima Pacha:** And we are also going to have a 70 bps additional benefits because the royalty payments I think seized from 1st April, right?
- Anil Rai Gupta:** Right.
- Fatima Pacha:** So would that be ploughed back into business or it will be allowed to flow?
- Anil Rai Gupta:** No, that will be ploughed back into the business. So I think as I have mentioned already, so overall margins that we have without considering this additional royalty thing we are still looking at about 13.5% to 14%.
- Fatima Pacha:** We should not take a Q4 kind of a margin sustaining for next year?

- Anil Rai Gupta:** Yes, I think Q4 also has a lot of year end adjustments, so the better thing to be looked at is the entire year margins.
- Fatima Pacha:** On growth outlook I just wanted to ask you, on the durable side we generally have seen that whenever there is an early summer we see the durable segment pickup significantly, is there any reason why our durables growth in Q4 was lackluster, as in we have seen the AC guys talking about stellar growth, we also heard from sources that fan segment did really well. Any reason have they consciously slowed down on some other segment in durable business which has led down the growth and fans continue to be stellar?
- Anil Rai Gupta:** Yes, I think fans continue to be doing well. Last year if we see we had slowed down growth in the domestic appliances category and for our own internal reasons for want of certain new launches in the product segment and I think that has now been taken care of, so we should be looking at good growth coming in the domestic appliances also. But overall fans as well as water heaters has done very well.
- Fatima Pacha:** And would we give a breakup at least for the full year if not quarterly?
- Anil Rai Gupta:** No, we normally do not divide this into various product line.
- Fatima Pacha:** So is it fair that we look like a 10% - 12% revenue growth for FY17, is that a good number?
- Anil Rai Gupta:** Well, we are hoping too, as I said as a Company as whole we are definitely looking at double-digit growth.
- Moderator:** Thank you. Our next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Sir on LED is it possible to know if we are looking at a BIS certification coming up in FY17?
- Anil Rai Gupta:** Yes, so they are already BIS certified.
- Bhargav Buddhadev:** Secondly sir, in terms of cash conversion there has been a slight reduction in terms of cash conversion days in FY16 compared to FY15 but is this because of the fact that we are looking at a strong Q1 and hence there was some inventory on the balance sheet as on the March end?
- Anil Rai Gupta:** I think there have been some inventory accumulation but that also because we are seeding new products into particularly the ECD categories and all, but we do not see this as a trend, I think we will continue to be fairly well managed in terms of working capital efficiency. Sometimes few quarters here and there I think they do not sort of signify any change in trend basically.
- Bhargav Buddhadev:** Thirdly sir, this new management of Crompton seems to be aggressive now in the market post the change in the management, so are you seeing any increased aggression from their side?



- Anil Rai Gupta:** I think generally speaking competition is also good for the industry because this industry is having still quite a bit of unorganized sector. So as and when the competition increases it increases the size for all the players in the organized markets. So I think overall organized and disciplined competition is always better.
- Bhargav Buddhadev:** And lastly sir, is it possible to know that whether we have sort of streamlined any discount across the distributors and that may also have lead to some gross margin expansion?
- Anil Rai Gupta:** Yes, so overall price discipline definitely increases the gross margins and I think this has happened we mention that in the first half of the year we did some correction and that also helped, but it is also to improve the overall, but there was a lot of focus on the cost efficiencies as well, so it is a blend of both.
- Bhargav Buddhadev:** And lastly sir, you hinted on some new launches in appliances, so is it possible to sort of elaborate on that?
- Anil Rai Gupta:** So within appliances there will be more product categories and these are small product categories, appliances is constantly dynamic group, it is not something like for example within mixer, grinders you will continue to have different models to cater to different kinds of customer segment within irons also, so there will be various launches continuing to happen. I would not say that major product category is being added but within that just to maintain our market share and increase the market share we will continue to be launching new products.
- Moderator:** Thank you. Our next question is from the line of Manoj Gori from Equirus. Please go ahead.
- Manoj Gori:** Sir, I just wanted to know few days back we had an announcement like we are entering into automation category, so just wanted some take away from your end.
- Anil Rai Gupta:** So home automation is still a nascent industry wherein basically it is a replacement of the switching control and the lighting control in a house and the whole idea is how we can make it more affordable to smaller and middleclass households. So there is a lot of activity going, we have already launched the high end version and we will be launching the middle end version also during this financial year also. It's still as I said smaller industry and I think what we are targeting is Rs.100 crores kind of a turnover in the next four years. So this is something which will develop over a period of time, maybe the industry develops faster than that and we shall be well positioned to take advantage of that as well. But I think it completes the overall product offering from a brand like Crabtree from Havells.
- Manoj Gori:** And sir one more thing, from FY16 what we have been witnessing is your lightening and fixture EBIT margins have been coming down, is it because of the government orders more to do with?
- Rajiv Goel:** Actually government orders issue if you just recall, Anil just mentioned, we have not taken government orders on the so called commoditized lamps business, it is largely because of the

CFL which has been constantly declining and the cost of that business is not able to recover. so that is a larger issue, otherwise there the margins are healthy in the LED business but it gets offset by the CFL decline and is not impacted by the government order which are have not taken.

**Manoj Gori:** And sir should we expect the similar range in FY17 as well?

**Rajiv Goel:** I think lighting will continue to be something we need to manage on a constant basis, so I will not hold out much growth in the margins on the same. Yes, we continue to monitor the margins and hopefully we should improve but safe would be assume we will continue to be constant of what we have achieved this year.

**Moderator:** Thank you. We have the next question from the line of Aarnav Mitra from Credit Suisse. Please go ahead.

**Aarnav Mitra:** If I look at your switchgear division margins, so even if I take out the first nine months of last year because the last quarter had a one-off cost, your margins have actually gone up from something like 36% to 39% broadly, so what has driven this margin expansion on the switchgear side and do you think its sustainable going ahead?

**Anil Rai Gupta:** Yes, as I mentioned earlier it is a mix of both price discipline as well a cost improvement, cost efficiency. So I think we can expect sustainability in these margins at least in this range, I would not say exactly this number but between one or two basis points.

**Aarnav Mitra:** And second question was just on the LED side, so I just wanted to understand, so you are saying that in this year FY16 there was not much of institutional orders in the sales and so I just did not exactly get you on that whether there is some institutional sales which have now started coming in from this quarter onwards.

**Rajiv Goel:** Yes, so we did not have any institutional, institutional means I am assuming you are talking government particularly.

**Aarnav Mitra:** Yes.

**Rajiv Goel:** So we have participated in one of the EESL orders, the EESL order will be largely consummated in the next few quarters and which is on the street lighting and not on the lamps.

**Aarnav Mitra:** And couple of book keeping question, one is, cash on the books that is there so what kind of yield would you expect on that in terms of building the other income number? And secondly, if you could just help us with tax guidance, this 28% this year is going to be the tax rate for the next couple of years or any changes we should expect there?

**Rajiv Goel:** So yield we are assuming let's say in the range of 6% - 6.5% depending on how the interest rate scenario pans out because these are all extremely liquid and safe instruments we will be

participating in. On your tax, I think 28% what we believe would be there for the next few years, we do not see much change in the same.

**Aarnav Mitra:** And just one last question, sir on air coolers are you having a wider range launch this year into the summers?

**Anil Rai Gupta:** Yes, not this summer but in the forthcoming season we will be having a much wider range.

**Moderator:** Thank you. Our next question is from the line of Dhavan Shah from Indsec Securities. Please go ahead.

**Dhavan Shah:** I have few questions, first question is related to the LED light orders for Rs.70 crores in this year, so have you delivered something from that part or will it be...

**Rajiv Goel:** It is very marginal, so you should assume that whole of it will be executed in next two quarters.

**Dhavan Shah:** And what is the size of orders do you expect that will flow from the government end for this year in terms of the LED?

**Rajiv Goel:** I think that is difficult, these contracts are fairly competitive and I think we need to maintain our internal margin requirement. So this is not the business we are really banking upon for our growth because this will be over and above of what we want to internally achieve as a business.

**Dhavan Shah:** The thing is, see there are many competitors for LED if you are targeting the government orders and the LED price has also been reducing, so are you witnessing pressure in terms of the pricing front because it could be many in the inventory, changes in the inventory like loss, so are you expecting some kind of losses on inventory front over the period of next few quarters because of just reduction in the price of LED?

**Anil Rai Gupta:** No, the Company is fairly prudent in managing inventories in these kind of fast changing scenarios and because of having the right kind of relationships with our distributors and channels we are not viewing this as a challenge.

**Moderator:** Thank you. Our next question is from the line of Kirti Dalvi from Enam Asset Management. Please go ahead.

**Kirti Dalvi:** A question on the balance entities which are there today in Sylvania, what is the plan and what kind of amount we would expect to receive once we sell off these four entities?

**Rajiv Goel:** As you are aware out of these four, two are already in the process of closure because they are not part of the transfer process. So hopefully in those two entities we do not expect any additional exposure apart from what has already been absorbed during this year. As far as the other two are concerned, we had highlighted earlier also that as of now our assumption that we will be able to

transfer at the end of the year and I think any payment on that can only be computed when we are near to the year. So I think it will be really difficult to really talk about that at this juncture.

**Kirti Dalvi:** But for 80% stake we roughly received Rs.1,087 crores kind of number for both entities I mean Malta as well as the Exim. So once can take roughly Rs.200-odd crores kind of balance valuation?

**Rajiv Goel:** That is for 20%, that is not for these two entities.

**Kirti Dalvi:** What I meant was everything of Sylvania gets sold by say FY17 or FY18 beginning, so what could it be...

**Rajiv Goel:** No, see this 20% this is something we will continue to hold for three to five years, this is not going to be sold in next six or nine months.

**Kirti Dalvi:** So that would be over a period of three years that is what you are saying?

**Rajiv Goel:** Three to five.

**Kirti Dalvi:** And just a question, if I see the capital employed in switchgear business it has gone up by 40% odd in the last quarter, any particular reason, I mean any kind of inventory issues in that segment?

**Rajiv Goel:** There is no significant change in that, it may be some reallocation which would have come but otherwise there is no change in the capital employed in the switchgear business per say.

**Kirti Dalvi:** And sir these automation segment, will switchgear be part of the business?

**Rajiv Goel:** Yes, because it's the extension of switches.

**Kirti Dalvi:** And if you could throw some light on Promptec, I mean what kind of size we are looking at in that business?

**Rajiv Goel:** Promptec, when we acquired them around May they were around Rs.30 crores odd that time and this year they have closed at around Rs.52 crores, we expect them to be sort of Rs.200 crores business in the next two to three years.

**Kirti Dalvi:** And if you could throw some light on the margins?

**Rajiv Goel:** The margins continue to be good, I think they have some past write-off which we had to take, apart from that the profit margin was close to 7% on the net basis.

**Kirti Dalvi:** PAT margin?

**Rajiv Goel:** Yes, PBT margins.

- Kirti Dalvi:** And this cash we received in the beginning of the quarter?
- Rajiv Goel:** Yes, end of January.
- Kirti Dalvi:** So I think the full impact of other income will come in this particular year itself?
- Rajiv Goel:** That is right.
- Moderator:** Thank you. Our next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.
- Prashant Kutty:** Sir, firstly on the durables business, just wanted to get a sense over here, would you be at least able to tell us if the fans growth was in high double-digit number or what would the number have been?
- Anil Rai Gupta:** As we have already said that we do not disclose individual numbers for every product category, but it was in double-digits.
- Prashant Kutty:** And sir secondly, if I look at last quarter you had highlighted about the traditional lighting business, you said that it is somewhere coming up close to the bottom but you have again obviously you did not submit moderation further as well, but any comments on that side as to what is your expectation on that side as per the traditional business is concerned?
- Rajiv Goel:** You are talking about lighting?
- Prashant Kutty:** Yes, I am talking about traditional lighting.
- Rajiv Goel:** Traditional lighting I think will continue to be substituted by LED and I think that pace will only accelerate, we do not see bottom on that.
- Prashant Kutty:** And sir in terms of our penetration, of course obviously we would have been significantly focusing on penetration, so if could just highlight as to what is our plan for the next year in terms of focus on penetration side?
- Anil Rai Gupta:** I think our major focus is now to continue to expand through the retail channels and how we can engage the retail channel the way we have engaged our dealer channel, so there is a lot of engagement going on. I think more than that it is just a number, we need to enhance our share in each and every dealer and retailer that we have, so that is the focus for this year, it is not merely expansion of numbers.
- Prashant Kutty:** But if I may just know as to what was the number addition in FY16 in terms of dealers and retailers?

**Anil Rai Gupta:** So dealers and retailers we continue to have active dealership, there is a addition of almost 500 to 600 dealers every year, but when we say the active dealers that is a list of close to about 5,500 dealers that we have.

**Prashant Kuttu:** I am sorry sir, you just highlighted something about some yearend adjustments in the margin, if you could just highlight what were those actually?

**Anil Rai Gupta:** What happens is during the entire year we take certain provisions for the channel incentives that are to be provided for, that we provide for and in the year end when we finally give the turnover discounts and all there could be some releases happening at the end of the year, so it is very difficult to estimate which quarter does this pertain to, so that is why we call it the year end adjustment.

**Moderator:** Thank you. Our next question is from the line of Harish Bihani. Please go ahead.

**Harish Bihani:** My question once again pertains to the distribution reach, in Company shares press releases on the initiatives taken to increase distribution in some of the states in Tier-I, Tier-II towns, now specially in the southern region and in the western region if you can share some qualitative feedback on how are you doing in terms of the distribution penetration, how is it improving? And typically related question is, typically when we go to say a Tier-II, Tier-III, Tier-IV town, what is the experience like having a Havells brand and how does it typically help, how much time does it typically take for the product to get accepted and ramped up, especially in smaller towns?

**Anil Rai Gupta:** So first of all I would say, if you ask for the qualitative assessment on the south investment and channel expansion, I think that is where the major focus of the Company is because that is where we feel that we have been less penetrated than the north and the eastern segment. So in the last not only one year but last few years the entire focus of the Company has been to go deeper into these markets and that is only accelerating and not reducing. So in every south market, maybe west market, that focus continues to be there and it has already started giving good results as I had already mentioned in the call. I think the biggest benefit that the Company has gained out of this huge advertising expenditure that we have as against the industry is the fact that the Company is not only metro centric but it is very well accepted as a brand in the B and C class towns and that is where I think the major growth for the Company is also coming. And the acceptance of the product is much higher as the consumer also wants in these smaller towns brand which they can trust. So I think if you really ask me qualitatively the penetration as well as the acceptance levels are much higher in B and C class towns.

**Harish Bihani:** Sir, on the standard brand we had put in much effort in this particular year, started a new advertisement campaign and we want to grow this business, I read some press release from a Rs.200 crores turnover to Rs.1,000 crores by 2020 and we have a separate channel for this. So how is this particular brand performing, you also launched fans so how is it going?

**Anil Rai Gupta:** I think this brand is getting very good acceptance, the brand segment has started doing extremely well, we are again looking at a very fast growth in this year. And I think the aspirations are very high from this brand, it is still I would say at the nascent stage and we are putting in a lot of effort not only just in the branding but also in the market place in terms of dealer network as well as teams. So we are expecting quite a decent growth and a fast growth from this brand.

**Harish Bihani:** And the Rs.1,000 crores number should be something that we should look at?

**Anil Rai Gupta:** Well, we will probably have to add a few more product categories to achieve that number, but I still would say that there is a sizable opportunity in this brand.

**Harish Bihani:** And sir last question is on the acquisition, whenever we would want we would conclude that, the thought process would be more to get into a newer brand or a newer geography in case we are doing it in India, what would be the broad thought process like?

**Rajiv Goel:** I think the acquisition landscape would be oriented on either product market share, technology or geography and in terms of geography our priority would be domestic market.

**Moderator:** Thank you. Our next question is from the line of Kashap Pojara from Axis Cap. Please go ahead.

**Kashap Pojara:** My question was more conceptual, wanted to just understand from you, off late in the last couple of years specially we have seen many smaller brands who are maybe regional specific or one specific product category trying to expand into the broader range of electrical appliances using the similar distribution channel. So wanted your sense on the overall competitive intensity in the industry and how you see that? And especially considering that Havells has been a premium brand and has been premiumizing over time, do you see any threat that we might be getting priced out considering the new strategy of other players trying to be in the same space at maybe cheaper price point. So how do you see this thread panning out in terms of risk to overall volume growth going ahead for Havells?

**Anil Rai Gupta:** First of all, I think our pricing is premium in the sense that we offer some good value additions to the consumers, so I would not say that we are an expensive brand, we are value for money brand. But value for money in a different sense that we are not a cheap brand, it is only on the economy part of the business. And when you say that competition is increasing, more number of brands are coming in, I have already mentioned on this call that actually it is good for the industry because what some brands which are focusing on let's say the lower price in the economy segment is that they are taking share away from the unorganized sector which actually increases the pie for the organized sector which is in fact somewhere good because if you say that these are brands then they definitely will be focusing at least to get some better quality than the unorganized sector which actually is good for the industry. But still in overall terms I do not think that the way we focus on product innovation as well as on branding and reach, I do not see any challenge given this competition intensity or the fact that more number of players are coming in. I think it is good for the industry overall.

**Kashap Pojara:** And when you mention about focus on engagement with retailers, just wanted to question you on that, see originally Havells has used dealer network very efficiently to push and has used ad spend on the other side to pull the consumers, so this strategy really paid us very well over the last few years. So by actually specifying that we will be doing more engagement with the retailers would it not imply that there is any course correction from focus on dealerships?

**Anil Rai Gupta:** So I think what we are trying to do here is in fact try to increase the business for dealers by engaging better with the retailers we are making sure that the business is generated for dealers. So I do not see any conflict where in fact it is a great coexistence for dealer, retailer as well as the Company.

**Kashap Pojara:** And considering that we have a good amount of cash flow and cash balance on hand, we are going to be having a sizable chunk of cash in the next couple of years. So obviously you have mentioned earlier that we would look at acquisitions which could be natural to kind of expand the scalability scaling, but overall I mean from a strategy standpoint what would be the positioning of the management, would you basically want to make a big acquisition in the sense, even domestic, a large acquisition or would you look at smaller-smaller brands and multiple acquisitions like how you have done Promptec over time. So what would be the strategy there, would it be multiple small acquisitions across different category markets or would it be one big acquisition acquiring a big company, so where would the allocation be?

**Anil Rai Gupta:** I think we have defined what we are looking to achieve, in that I think we would review what is available and that basically we will take a call, frankly we are not binding ourselves into big or a small or micro. Obviously few things very small may not make sense, few things very large also may not make sense, so I think the flexibility we have to retain in this environment.

**Kashap Pojara:** And lastly, the CAPEX number that you had mentioned, I missed that, could you just point that out, what was the CAPEX you mentioned for FY17?

**Anil Rai Gupta:** So FY17 is Rs.260 crores - Rs.280 crores and that is largely because we are acquiring few land parcels and then we have to build building, it is largely to get prepared for the next stage of growth for the Company.

**Moderator:** Thank you. Our next question is from the line of Ashwin Narayan from Catamaran. Please go ahead.

**Ashwin Narayan:** I have a couple of questions. First, regarding your Galaxy Stores, what has been the growth, just trying to understand how many stores we had last year and how many we opened this year and how many we closed? Second is on the Power Plus Loyalty Program for electricians, what has been the growth, how many enrollments we have now? And third on the Sampath scheme of retailers, how many retailers we have enrolled now? And the fourth question is on your customer service cost which is the cost we incur for the helpline and the allied cost, so what has been the cost and what has been the growth?



- Anil Rai Gupta:** I think I can only answer the first part of the question, the rest of the questions we would like to abstain from answering them because it unnecessarily gives more information to the competition. But i think the first part, we are now at 375 Galaxy's against 250.
- Ashwin Narayan:** Did we close any stores, Galaxy and...
- Anil Rai Gupta:** No, I think practically none of the stores get closed.
- Ashwin Narayan:** And do you give the revenue contribution from the Galaxy stores?
- Anil Rai Gupta:** Around 15 to 17.
- Ashwin Narayan:** And the customer service cost, you do not give the data?
- Anil Rai Gupta:** No.
- Ashwin Narayan:** Just one follow-up on that, in your annual report you give a cost called product warranties and after sales service and is it pertaining to that?
- Anil Rai Gupta:** Yes, it is part of that, but of course there will be a lot of other historic liability costs as well, but it is not just the service cost, service cost is a part of that.
- Moderator:** Thank you. Our next question is from the line of Pranav Gokhale from Invesco Mutual Fund. Please go ahead.
- Pranav Gokhale:** Sir, I have a question on your transaction related to Shanghai fellow, what is the rationale for still having 20% stake, is it milestone based?
- Anil Rai Gupta:** No, I think they wanted to continue partnership with us because they also see opportunity with Havells in India and we see in China, so I think it is a goodwill gesture where we continue to be aligned with them and that is why 20% and we have a three to five-year horizon where if we want we can exit or we can continue with them.
- Pranav Gokhale:** So it is not milestone based, so if a particular milestone is not achieved there is an implied liability on others to buyback stake or something like that?
- Anil Rai Gupta:** No, there is no milestone.
- Pranav Gokhale:** So there is no implied liability on Havells in future to buyback any stake in the transaction?
- Anil Rai Gupta:** No.
- Moderator:** Thank you. Our next question is from the line of Jignesh Kamani from GMO. Please go ahead.

- Jignesh Kamani:** Just want to check sir, in last year have we incurred any inventory loss on the LED segment?
- Anil Rai Gupta:** No, not in a normal course of business but nothing exceptional.
- Jignesh Kamani:** So the margin pressure as you mentioned is purely because of the higher overhead in the CFL business?
- Anil Rai Gupta:** Correct.
- Jignesh Kamani:** And sir, how is the performance from the air cooler, though it is the first season and a little bit too early too, but how is the performance from the dealer and distributor because part of the summer has already arrived?
- Anil Rai Gupta:** We had limited capacities in this first year because we just had setup the plant, I would say the response is very good but for a very small number. So I think the real test will be the next season.
- Jignesh Kamani:** And is there any negative feedback from the dealers compared to competing brand or everything and the pricing wise or any other thing or its only the limitation?
- Anil Rai Gupta:** On the contrary there is a very positive response.
- Moderator:** Thank you. Our next question is from the line of Chandra Gopal from JM Financial. Please go ahead.
- Chandra Gopal:** Just one question on the Karnataka land acquisition which we have done, what are the timelines for setting up the unit for manufacturing over there?
- Anil Rai Gupta:** I think we should be able to get the entire permissions and everything within next three months, so it will take almost a year after that.
- Moderator:** Thank you. Our next question is from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** My question is on the revenue growth outlook side, I am just looking lighting continues to do very well and you expect this whole transition or disruption from CFL to LED to only accelerate. Your volumes in the cable business are doing very well and traditionally we have been precursor to the other segments also doing well, the copper prices should also kind of hopefully bottom out or have already bottomed out, so that impact will also go out in the next one or two quarters. So why there is a reluctance in terms of looking at a revenue growth which is much better than what you got in FY16 especially in the second half of FY16, are we being conservative on the revenue side?
- Anil Rai Gupta:** No, I do not think we have been conservative, I did say that we are expecting it to be much better than FY16.

- Amit Sinha:** But FY16 first half was kind of too low, so if I had to kind of use the quarter four numbers...
- Anil Rai Gupta:** I would say that we are still hopeful of even bettering the second half.
- Rajiv Goel:** Second half was also 9%, we are talking double-digit growth now. See the thing is that we still need to see how the things stabilize whether it is macro, whether it is economic, how the traction takes place and I think we are all as good as the traction underneath. So hopefully in the next few quarters when we see the proof on the ground then we can be sort of more certain. Till then I think it serves on purpose, we host that same thing and then sort of keep revising the same. But yes, I think on the opening statement itself we have exhibited confidence on what we can achieve during the year.
- Amit Sinha:** Let me put it like this, are we confident that at least the volume growth that we are seeing in second half in some of our key product categories, that can sustain in FY17 or maybe even get better than that?
- Anil Rai Gupta:** I wish I had a crystal ball, let us discuss it after a couple of quarters.
- Moderator:** Thank you. Our next question is from the line of Chandrashekhhar Sridhar from Fidelity Investments. Please go ahead.
- Chandrashekhhar Sridhar:** Juts philosophically if I had to look over the last six years, your gross margins have improved by close to 700 basis points. Just if I had to think philosophically, do you think that your any particular comments wherein you are over earning by way of margins and if not, if you had to take a call maybe about three years out, what do you see as the trajectory of gross margins? That is question one. Secondly, just on employee costs, again that over the last six years has almost doubled in terms of percentage of sales, there is obviously a lot of investment which you have been putting in terms of talent and you have been getting a lot of higher quality talent, but is there some point beyond which you think you will start getting operating leverage on that or is it fair to assume that this is the level at this we are or you could even go up further? Just your thoughts maybe over the next three years.
- Anil Rai Gupta:** I think overall if you see, we definitely have improved the perception of the brand as well as we have invested a lot on products innovation and hence we are able to achieve the margins that we are able to. I think while certain margins might be looking high, overall we aim to be around this kind of EBITDA margins and not gross margin, EBITDA margins is something that we look for as a Company as a whole. So I think we would continue to target these EBITDA margins in the next three years also. As far as employee cost goes, I think that investment phase will continue a little bit for another two or three years because as you rightly said that we will be looking to beef up the talent pool in the Company for the next phase of growth, so we are expecting a faster growth in the coming year, we are looking at more acquisition. So definitely we would require a good talent pool in the organization and hence that investment would continue. Obviously after

some time there will be operating leverage but at least in the next two or three years we will continue to invest in good manpower.

**Moderator:** Thank you. Our next question is from the line of Chokulingam Narayan from Deutsche Bank. Please go ahead.

**Chokulingam Narayan:** First question is actually on the IndAS accounting pattern, how does this impact particular on the receivable financing part?

**Rajesh Gupta:** It will continue, we do not see any impact.

**Chokulingam Narayan:** But on the balance sheet front would the receivables rise?

**Rajesh Gupta:** June quarter number will be in IndAS only, so you will get the full clarity by June quarter end.

**Chokulingam Narayan:** No, would you have to provide a higher receivable number because there is recourse of a 10% number, is that understanding right?

**Rajesh Gupta:** No, I don't think there is any impact on receivable side on IndAS.

**Chokulingam Narayan:** It will remain the way it is?

**Rajesh Gupta:** It will almost remain, yes.

**Chokulingam Narayan:** Secondly on northeast, you talked about possible entry through manufacturing facility and tie-up, could you talk a little bit more on that?

**Anil Rai Gupta:** I think what we would in the next, this is more of a long-term planning that we want to do because in the next few years we will require more capacity for our switchgears and hence we said it would be the right thing, first of all our eastern markets are also very strong and to cater to those markets and also to continue to avail the benefits of the government policy we have decided to setup a facility in northeast as well. So this will I would say it is a small start and I think it will pan out over the next few years as and when the capacity requirements in our share would continue to grow.

**Chokulingam Narayan:** How much percentage of revenues would northeast would be, less than 5% today?

**Anil Rai Gupta:** It is too early to say that, as I said that today we have the right capacities for our system but for the further expansion we will come in that front.

**Chokulingam Narayan:** Because I thought the Karnataka one we are looking for switchgear capacity expansion, right?

**Anil Rai Gupta:** Yes, we would start with wires and cables and then eventually it will have some lighting facility also.

- Chokulingam Narayan:** And last bit on the new air purifier products that you have introduced, how big is the market, I know it is a nascent market but how big is it, what is it that you are targeting?
- Anil Rai Gupta:** It is still a very-very small part of the overall business we have recently entered and I think it is just completion of the entire portfolio, it is still very small product.
- Moderator:** Thank you. Our next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.
- Nikhil Upadhyay:** Sir, my question is basically on the cables and wire segment, so if we look at our growth it is mainly a large part of volume growth has been lead by the cable segment which is more a commoditized part of the business but still we have been able to maintain our EBIT margins around 14%. So is it that the underlying demand is so strong that there is no price cutting which is happening in the market, what is helping us here?
- Anil Rai Gupta:** First of all, these are not EBIT margins, these are contribution margins and there are expenses over and above, below this also. So these are contribution margins, there has been improvement of almost 2% there, part of this is because of cost efficiencies and part of this is also because of the lower raw material cost during the entire year. I do not think we will be able to sustain these margins, we will be very happy if they are able to but some part of this would have to be given away. But whatever we have achieved through our cost efficiencies that we will continue to maintain. But as a Company as overall I think we will be able to maintain our margins.
- Moderator:** Thank you. Our next question is from the line of Ranjith Shivram from Antique Stock Broking. Please go ahead.
- Ranjith Shivram:** Sir, just wanted to regarding this acquisition which we are planning of which is in the thought process, any particular product range or any segment that we will be liking to add in our portfolio that we feel that is missing currently where we can get a good incremental growth, if you can add some flavor on that.
- Anil Rai Gupta:** I think as we said this will be broad based, and we are not limiting ourselves to any particular category, you see there we see opportunities for all our product categories. So I think wherever it is available we will be sort of very keen to explore the same.
- Moderator:** Thank you. Our next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.
- Prasad Deshmukh:** Sir, one question on this retail engagement initiative that you are taking, first of all what initiatives are these and what kind of benefits would come from that and timeline for the same if you can give.

- Anil Rai Gupta:** I think the retail initiative that we are taking is as we said our products get sold from dealers to retailers and the retailers were something that our dealers were earlier pushing those products to our retailers and there was limited engagement with those retailers. I think now our sales teams are visiting and engaging more with these retailers, doing a lot of displays at their counters, trying to get more share of the counter from their end. And I think this is the engagement that we are talking about, there is I would say a more engaged activity happening with the retailers.
- Prasad Deshmukh:** And benefits and timeline?
- Anil Rai Gupta:** The benefits will be increased sales.
- Prasad Deshmukh:** And wanted to just quantify if there can be any margin benefits?
- Anil Rai Gupta:** No, we are not getting any margin benefits in that.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I would now like to hand the conference over to Mr. Harish Bihani for his closing comments.
- Harish Bihani:** Sir, any closing remarks please?
- Anil Rai Gupta:** No, thank you.
- Harish Bihani:** We thank the management for taking the call and the participants for joining the call. Thank you.
- Moderator:** Thank you members of the management team. Ladies and Gentlemen, on behalf of Kotak Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.