



“Havells India Limited Q1FY17 Earnings Conference Call”

July 23, 2016



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MODERATOR: **MR. KASHYAP PUJARA – AXIS CAPITAL LIMITED**



*Havells India Limited
July 23, 2016*

Moderator: Ladies and gentlemen good day and welcome to the Havells India Limited Q1FY17 Earnings Conference Call hosted by Axis Capital Limited. As a reminder all participant lines will be in 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 ‘*’ and then ‘0’ on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara of Axis Capital Limited. Thank you and over to you sir.

Kashyap Pujara: Good evening everyone and thanks for standing by on a Saturday evening. It’s a great pleasure to have with us the management of Havells India to discuss the Q1FY17 Results. From the management side we are represented by Mr. Anil Gupta – Chairman and MD, Mr. Rajesh Gupta – Director (Finance) & Group CFO and Mr. Rajiv Goel who is our Executive President. Without taking too much time I will hand over the floor to Mr. Gupta. Over to you Sir and congratulations for a fantastic set of numbers.

Anil Rai Gupta: Thank you very much. Once again thank you all for participating on this Saturday afternoon. We also had a board meeting just completed. The first thing which we are doing after that is talking to our loyal investors and analyst after the board meeting.

So good afternoon everyone. I hope that you would have reviewed the summary of results circulated earlier during the day. The first quarter has delivered visible improvement across all the product categories. Apart from growth in headline segments we have grown in sub segments also like new products like pumps, geysers exports as well as standard as a brand. Overall growth could partially be attributed to base effect of low growth in the last year. If you remember last year, I have mentioned that we have made certain changes in our distribution system, so that we are able to expand in a much bigger way in terms of retail So we have made certain changes and because of that first quarter there were some lower pick up in the primary segment, though our secondary sales continued to be there. So that is also partially attributed to this growth. Cables and wires value growth continued to be suppressed with low commodity pricing. However, the volume growth has been decent around 25% in the first quarter.

Lighting and ECD segments have raved up also with a promising outlook. So the company has been significantly ramping up its senior management team with talent acquisition from leading FMCG, telecom as well as building product companies. As also a sharper focus on each segment for expanding product range as well as distribution channels. An extensive technology platform is also being leveraged for efficiency and scalability. So overall we remain quiet positive on growth though sustainability would rest upon broader economic recovery, which we believe is still is inconsistent and a little bit patchy.

On that note we now proceed for Q&A.

- Moderator:** Thank you Sir. Ladies and gentleman, we will now begin the question and answer session. We have a first question from the line of Venugopal Garre from Bernstein. Please go ahead.
- Venugopal Garre:** Firstly, I just wanted to understand on the ECD segment if you give some more granular idea of broad growth rate across your product category?
- Anil Rai Gupta:** Generally, ECD segment's sizeable part of the business is coming out of fans. But we have seen good growth also in water heaters in this year. In last year there was certain changes in new product introduction we have made in the water heater segment Appliances has also come back in a better way. Last year we did not have much growth within the appliances category. So first quarter, overall ECD segment has shown good growth and the good part is that the majority part which is the fans segments has also shown a very decent growth of around 18% to 19%. So overall if you see the ECD growth is around 20%, but fans which is the sizeable part has shown decent growth as well. So it is not just coming out of new product category but also coming from the main traditional product for the ECD.
- Venugopal Garre:** Secondly on the balance sheet side receivables, inventory both are moved up from if I look at March versus June quarter. So it is like a normal course business related thing or anything else?
- Anil Rai Gupta:** Generally speaking, March inventory is at its lowest because generally a lot of pull happens from the trade segment in the last month and suddenly the fans, the cables, wires all those sales happen in between March. So really it is not a good comparison to do it in March and some inventory buildup might have also happened because of good growth coming in the first quarter. But overall I do not see this as a major concern.
- Moderator:** Thank you Sir. We have next question from the line of Aditya Bhartia from Investec. Please go ahead
- Aditya Bhartia:** My first question is on the lighting business, wherein we saw strong growth this particular quarter. Just wanted to understand is this street lighting order also contributing to revenues in this particular quarter?
- Anil Rai Gupta:** So as a disclosure now we have started showing street lighting EESL business in the others category. So that is not coming out with the lighting and fixtures category. So if you see a 33 crore kind of sales in the others, that is the EESL business that we are talking about.
- Rajiv Goel:** 22% growth in lighting.
- Anil Rai Gupta:** 22% growth is in the traditional lighting that we do without the EESL business. Not traditional it is overall lighting including the LED of course.

Aditya Bhartia: Right and LED business has started accounting for roughly half of our revenues last year and last year we had a had very strong growth in the LED bid. Are you seeing that kind of momentum sustaining for the next let us say 4-5 quarters as well? I do not mean doubling of revenues from here on but it is strong growth of 40-50%.

Anil Rai Gupta: Because now sizeable part of the business is LED business. So you cannot expect a 40%-50% growth keeps coming on. But I think overall LED's prices coming down. If you see the overall LED business, basically lighting is now more and more LED and so traditional lighting if you see we have some parts left which is the CFL business, some parts in the overall fixtures business. But that, whatever is coming down is been taken over by LED. So really it is not clearly to see LED as the another part of lighting businesses. It has become a completely a submerged business of lighting.

Aditya Bhartia: Is it possible to give a broad break up between lamping fixtures as well as lighting is concerned?

Anil Rai Gupta: So basically it is almost 2/3rd of our business is fixtures.

Aditya Bhartia: Okay and the last question from my side is on employee cost. Those appear to have increased quite sharply in first quarter and we have attributed that to strategic initiative. If you can elaborate on that?

Anil Rai Gupta: I think overall if you see entire year last year we had made conscious steps to make sure that each and every business has a particular kind of sustainable future growth kind of initiative whether they are on the marketing side or sales and distribution side, R&D side. So there was some extra hiring done over last one year or so and that is expecting in the overall performance. I think, yes in terms of employee cost it looks like a big number. But as a percentage of overall sales it is still quite insignificant. I think that is where we are investing now as a company to make sure that this real professionalism in each and every part of the business.

Moderator: Thank you Sir. We have a nice question from the line of Fatema Pacha from ICCI Prudential Life Insurance Company. Please go ahead.

Fatema Pacha: What I wanted to know is from Diwali last year I think management commentary has become quite positive and you have been saying that the domestic demand has gained momentum. I just wanted to ask you, in Q1 how is it looking like are we seeing that momentum continuing in Q2 as well or how are you looking at the domestic demand would we say that we are gained substantial market share or industry is doing as well.

Anil Rai Gupta: First of all I think while we have been positive it is all because of the fact that there was some improvement. I would not say that a lot of improvement in the overall demand side in the market share. But if you remember the last year first half or second year second half of the

year before that, those particular 4 quarters was very low in terms of demand and during that time we were also making certain key changes within the organization, overall distribution system. So the growth was limited. So we have been more positive since the 3rd quarter. But I did not think, it is really very consistent kind of growth which we are actually seeing and hence we attributed our growth little bit more to market share gain little bit more to the fact that we continue to invest in brands, expansion of channel going deeper. So overall, we are expecting that both will be there but it is not really that consistent as we would like it to be.

Fatema Pacha: But is it fair that considering we had such a stellar Q1, this year it looks more like a 17%-18% growth kind of figures rather than the last year figures that we had.

Anil Rai Gupta: No, I think first of all at of the year also I mentioned that this will be a better year than the first last year. So last year we will definitely a mixed growth because of the first half of.... I think this year will be definitely much better. Can we just extrapolate the first quarter growth to the rest of the 3 quarters, I would still be very cautious in doing so, because I have already mentioned in the first quarter there is also helped by the quite bit by a low base of the 1st quarter last year and which was improved in the 2nd, 3rd and 4th quarter. So I would not really say that it is very easy to just extrapolate the 1st quarter.

Fatema Pacha: Fair enough. Is it fair to say that we have had 100 bps reduction in royalty. In Q1 we are seeing a good 100 bps margin expansion, but it could also be because Q1 last year EBITDA margins were much lower than the rest of the year. Can we expect that hundred bps to flow through or it would be used in business expansion?

Anil Rai Gupta: There is about 70 bps improvement in the royalty and that will continue to be there. So the rest has all come from operation improvement whether in terms of, see it is very difficult to predict because of products mix or anything. All I can say is that as a company we have continued to remain focused on margins. We continue to remain a disciplined organization in the market place in terms of pricing. So that should not affect much but this 70 bps definitely should go through.

Moderator: Thank you. We have a next question from the line of Dhaval Mehta from Emkay Global. Please go ahead.

Dhaval Mehta: Sir you called out in your opening statement, that the secondary sales have been quite healthy while the primary sale is comparatively lower. So any read through, can you just elaborate?

Anil Rai Gupta: Let me just correct you here. I was talking about last year, 1st quarter?

Dhaval Mehta: Okay. Sir my second question is that we have been highlighting from last 3 quarters that we are seeing green shoots which is visible on ground but even if you see our sales growth was not as much as what we have seen in this quarter. So optically the sales growth will be higher because of the lower base but even if you see absolute numbers, absolute number of sales

which it is quiet significantly higher than last 3 quarters. So what sequential, let us say in this quarter what has change as compared to vis-à-vis let us say last 3 quarters?

Anil Rai Gupta: No, I do not think there is whole lot of change in the sequential numbers in fact if you see it is very similar to the 4th quarter, though it is not entirely compared because 4th quarter is generally higher. I think overall, I can say that 1st quarter definitely are also helped by the lower base. But it is difficult to say whether same growth can be achieved. Definitely as I said, overall we are looking at a much better growth than the last year.

Moderator: Thank you. We have a next question from the line of Kirti Dalvi from ENAM Asset Management. Please go ahead

Kirti Dalvi: Just few questions. In switchgear segment we have seen higher growth obviously driven by your exports. What it be possible to get how much was the domestic growth in a switchgear and if you could give the export figures for switchgears as well?

Anil Rai Gupta: Domestic growth was around 17%.

Kirti Dalvi: Okay and do we see this domestic growth sustaining going forward as well because 17% in a switchgear is a very good growth?

Anil Rai Gupta: No as I said, switchgear was definitely a much higher effect of the lower base last year.

Kirti Dalvi: How much was the exports, absolute figure?

Anil Rai Gupta: We will have it back to you on this.

Kirti Dalvi: Okay and if you could give contribution of LED in the lighting segment totally out of ?

Anil Rai Gupta: In just one of the questions earlier, I have mentioned that it is now no use in differentiating within the lighting segment between LED and non LED because fixtures are 2/3rd of our business and more and more it is becoming LED now. So it's traditionally just the rest of the last of the pieces which are left. So I don't think it is. Basically you can say lighting is LED totally now.

Kirti Dalvi: Okay and in this others which is largely I would belief would be your Promptec for the EESL?

Anil Rai Gupta: Others is only the EESL business which Havells has done. Promptec is not included in the these numbers.

Kirti Dalvi: Okay, how much of this EESL would be recurring because this will be purely order driven business for us?

- Anil Rai Gupta:** That's why we have actually mentioned in the others category and not mentioned in this lighting and fixtures category because this is a business which can come, it is more of a tender based business. As we have mentioned earlier we are very selective in terms of margins. If only technology or brand is respected and there was particular tender, then only we compete, otherwise we do not.
- Kirti Dalvi:** So what could be the order book currently sitting in this business?
- Anil Rai Gupta:** Right now, it is another 35 crores .
- Kirti Dalvi:** Okay and if I see ad spend, it has been little flattish for the quarter do we see uptake in this going forward?
- Anil Rai Gupta:** Overall we are still estimating that same percentage to remain so hence quarter and quarter it can vary but it will be higher this quarter because by the time of the end of the quarter we will be heading into the festival season.
- Kirti Dalvi:** Okay and just one clarification. Did you mention that the 70 bps improvement was purely because of royalty income coming into picture?
- Anil Rai Gupta:** That is right.
- Moderator:** Thank you Sir. We have a next question from Renu Baid from IIFL. Please go ahead.
- Renu Baid:** My first question is just to understand little more, you did mention this switchgear growth was a factor of lower base last year. But then apart from the base effect are not we seeing better volume off takes from the standard and the other categories that we have shown in the domestic market or purely it would be a base effect only?
- Anil Rai Gupta:** No. So there is no doubt that even in the Reo segment, we have been able to grow at a better pace which has impacted the growth coming in the switches segment and we have launched a couple of products in the Reo segment as well. Also in the standard because of the focus the company has put in a separate brand in terms of brand name, sales team, and distribution channel in the last one year. So these have actually seen a much faster growth in standard. So you are right it is not only the low base but also initiatives taken by the company to push the sales growth in switchgears.
- Renu Baid:** So would it be right to assume that some of demand factor which probably have helped in this quarter? Should all can probably strengthen as we move forward in the next 12-18 months?
- Anil Rai Gupta:** But I think quarter on quarter let us look at one or two quarters and see how it pans out.

- Renu Baid:** Okay and second on the LED side of the lighting segment of the market, we have definitely seen the institutional segment also growing well and market also in terms of our representation is more of this mix? But how are you seeing the comparative price pressures in this market evolving? Our prices now looking to get a little more stable or still it remains on the corner?
- Anil Rai Gupta:** I think LED, there is obviously, there will be a low which will come and I think a lot of price reduction in LED has already taken place which is helping expand the market in a big way in the last 1-2 years. So I do not feel very sharp movement in LED pricing in the coming times which actually happened in the last one year. But overall its quiet stable now and as I said, we focus more on businesses which will continue to be, where the consumer perceives the technology as well as the brand. So we will be able to maintain the margins in the lighting segment.
- Renu Baid:** On the ECD segment we spoke about certain new lounges and new variants. How do we expect the contribution for newer range of geyser's and the other segments panning up in the coming quarter?
- Anil Rai Gupta:** So I think these are products within the segment which will give us a little bit more visibility in the trade. So I do not think this is something which is going to move the needle in the big way. So we continue to have launches. But I think overall geysers because of the product innovation that we are doing we continue to remain a quite fast growing brand in this category and this year also we are looking at a very fast growth in the geyser segment. It is helped by the fact that we setup our own manufacturing facility which help come out with the new models in a faster way.
- Renu Baid:** Will that also support better margins with local manufacturing base?
- Anil Rai Gupta:** Definitely.
- Renu Baid:** Just around this segment I wanted to check, on the institutional segment you did mentioned that you would want to increase the presence in the lighting and special street lighting segment of the market. So have we seen increased business momentum or from our side in terms of positioning in this market or preparedness with respect to more order participation and otherwise?
- Anil Rai Gupta:** I think there are many tenders which are in the offering right now. So we will have to see, again in large tenders, government oriented tenders it is not just brand, margin, product, a lot of other factors also come in. So I do not see that while we are fully prepared to be a part of that we can only say once we have orders in hand.
- Moderator:** Thank you. We have our next question from the line of Bhoomika Nair from IDFC Securities.

- Bhoomika Nair:** My question is on switchgears. We have seen margins holding up quite well and also expanding both on a YoY basis and also QoQ. Is this led by just a positive operating leverage or is there something else that is really driving the margin and are they sustainable?
- Anil Rai Gupta:** I think operating leverage definitely helps and as I said 0.7% is also because of the royalty thing. It also depends upon within switchgear there are so many products, some mix changes, some higher margin business, sometimes Reo switches might not be as high margins that increases, but I think generally it should be in this range, 39%-40%, that is what we are continuing to aim for.
- Bhoomika Nair:** Within lighting you said 35% growth in the fixture bit, but how would have the lamps and lighting been including CFL?
- Anil Rai Gupta:** Lamps were flat.
- Rajiv Goel:** Fixtures is about 35%, overall it is about 20%.
- Bhoomika Nair:** Okay. Basically CFL degrowth has been fairly continuing to remain quite sharp. Would that be a fair assumption?
- Anil Rai Gupta:** Yes.
- Bhoomika Nair:** Within the ECD segment you mentioned all these new areas like pumps and geysers, air coolers etc., how large are they now vis-à-vis in the overall scheme, what kind of proportion of revenues these new categories contribute?
- Anil Rai Gupta:** I think over all if you see appliances, water heaters and air coolers, air coolers is practically nothing but part of appliances. However, we cannot disclose figures for each product category.
- Bhoomika nair:** My last question is on EESL, you did mention that we are not really looking to participate but they are also planning to start in terms of fans. So what is our thought process in terms of trying to participate in the fan segment?
- Anil Rai Gupta:** As far as fans are concerned, if you know company strategy as a brand we are not present in the economy segment at all. Our entire play of about 800 crores of fans is in the premium category and EESL is I would say just another make for economy segments while the government might say that we are giving a better fan this and that. But because of the pressure on pricing, all the manufactures were coming in and they are pitching the very low quality fan into the EESL and you know taking large numbers. So I do not think it can affect some other brand but in fact, we are very confident that it will not affect the volume growth for Havells because we do not participate even today in that category of the segment.
- Bhoomika Nair:** Would it get down pricing while it might not impact volume?

Anil Rai Gupta: No, it was a different market place. Today also that market place exists largely in the economy segment so we do not participate in that segment and I do not think it will affect the other part of the market at all.

Moderator: Thank you. We have a next question from the line of Sanjay Satpathy from Bank of America. Please go ahead.

Sanjay Satpathy: I just want to find out about this lighting business where the margin has improved quite a lot on a YOY basis. So what has gone into that and the second question is that ESL reported nearly 23% contribution margin and I am assuming that there is not much of sales and distribution costs there. So it looks like a very high margin and that kind of pricing, how is it possible to have that kind of margin?

Anil Rai Gupta: Yes. I think first of all there is not much of sales and marketing cost but there are other cost of installation and all that. So as a company we report only contribution margin. But I would still say that this is a profitable business for the company and because we have chosen to be like that. Otherwise there is 100s of crores of orders for ESL. This year we are not participating in because we do not make money in that. But this is a business which we have chosen to be where technology was considered part of the competence and hence we have participated and hence we are able to make better margins in it. Overall it might not be the right thing to compare the lighting fixtures margins of last year. Last year first quarter was a bit of an aberration if you see and overall CFLs were coming down fast and because of that margins were very low. But it had stabilized over the next few quarters. So it might not be full one on one comparison with last year.

Sanjay Satpathy: Just one question there in the EESL business my understanding was that it is a fairly standardized product that the EESL is looking for. I did not realize that there is a scope of technology differentiation out there.

Anil Rai Gupta: We do not participate in the lamps business. We participate in the street lighting business which includes competence of insulation, competence of making sure that the product is available with the right attributes at that cost. So that is also technology oriented thing because of the acquisition of Promptec we were able to acquire that kind of competence. So much of this product is also made by Promptec.

Rajiv Goel: I think contribution may not be a true representative because there is lot of warranty and installation cost which we have not segregated in the contribution. So the margins will be healthy which is more of a choice but obviously it may not be as high as is depicted by the contribution.

Sanjay Satpathy: On the lighting and fixtures side how much is CFL now if I just can ask that question and also again varieties of prices and products available in LED, how finally you think that it will kind of settle down in terms of price point?

- Anil Rai Gupta:** First of all, CFL is a very small part of the business and it is coming down. Secondly, as far as LEDs are concerned I think we as a company are more trade-oriented, more distribution-oriented. So our pricing is dependent, not just on the cost but also dependent upon what we are able to gain from the market as a brand. So hence you see a very stable margin performance and lighting and fixtures as well and I think as a company because the number of SKUs is not a concern for us we manage that in other parts of the business also including switchgear.
- Moderator:** Thank you. We have the next question from the line of Navin Trivedi from Trust Research. Please go ahead.
- Navin Trivedi:** My first question is if you can give us some idea about if any segment also benefited from price hike or a better mix or most of the segments has been driven by the volume?
- Anil Rai Gupta:** There might be a general price increase which is related to general inflationary trends. But I think most of it is volume growth.
- Navin Trivedi:** Which segment do you think that the inflationary price increase has seen?
- Anil Rai Gupta:** Except cables and wires which is very commodity-oriented, rest of the areas we definitely see price improvement every year.
- Navin Trivedi:** So can we expect around 2%-3% price increase or more than that?
- Anil Rai Gupta:** How does it make a difference to be so specific on this. Switchgear to switchgear, in MCB it will vary, switches it will vary, and fans it will vary. I do not see reason why this question is there?
- Navin Trivedi:** Just the idea was that if it is also pegged by some price hike because the new launches which we have seen has also benefited the growth. But anyways my next question is on the 7th Pay Commissions and the outcome is expected this year as well as the next year we may see a 7th Pay Commissions at the state level. So we have a base benefit for the next two quarters also and these benefits are also expected to come. Do you think such mid-teen growth is possible or sustainable for the next one year?
- Anil Rai Gupta:** Low base effect was only in the 1st quarter last year. By the second and third quarter it has stabilized. So I do not see that there is a base effect in the second and the third quarter and as you said whether it is OROP, whether it is 7th Pay Commission, or whether it is generally a positive expectation of these festival demand that will be a job of any business. We always remain positive and optimistic. That is what we are but as I said on ground we do not see whole lot of consistency in demand. Some months looks good, some months looks the same, cash flow issues in the marketplace. Again as I said to extrapolate this growth in the next few quarters might be just expecting too much.

- Navin Trivedi:** Sir my specific question, how is our air cooler growth for the quarter if you can give us some idea about the season?
- Anil Rai Gupta:** It is a very new business and I think we are still testing the market with the product. I think we will be able to give in the next season a better number.
- Moderator:** Thank you. We have a next question from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** I have couple of questions. One is that Western region has been traditionally weak for Havells. But our recent channel check suggests that Havells has been taking some steps to basically strengthen its position in the West market. So if you can just elaborate on that? Secondly in your annual report you mentioned that you would be increasing your focus on Tier-2 and Tier-3 cities. So despite this would we still expect our margins to remain where they are?
- Anil Rai Gupta:** Yes. I think first of all Western region we have been putting a lot of focus on that and whether it is in terms of team infrastructure and distribution infrastructure. But in our business it does not happen very quickly. So the final effect to come and pick volumes it takes years. It is a not just a question of quarters or months. So we are definitely seeing better traction in the Western region which is definitely good for the organization because the weaker part of our business continues to strengthen in that part. As far as Tier-2, Tier-3 cities, I do not think it affect margins in any way. So overall if you see our pricing, our discount patterns are similar in Tier-2, Tier-3 it does mean that we will continue to investment and I have also mentioned that we are putting up lot of efforts in terms of making things automated in terms of dealer expansion, retail expansion, how we tracked the sales of retailers in smaller towns. So we are using a lot of technology to do that. So there is more investment on that side rather than thinking that this will lead to lower margins.
- Bhargav Buddhadev:** One last question is in your annual report there is a mention that the R&D spend has been increasing. So FY16 saw about 24% growth in your R&D. So one of the outcomes was your water heater which was IoT enabled. Can we go forward to similar product launches in this year or may be next year?
- Anil Rai Gupta:** I think overall there is a lot of focus on product innovation in the company in every part and you are right, there is a general working in the company which is going towards conversions of overall, each and every device to communicate with each. So there is a focus on IoT and yes you are right because of this increased investment you will definitely see far more innovation in the coming time.
- Moderator:** Thank you. We have the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

- Gunjan Prithyani:** Just two clarifications needed for my side. Firstly, on the margins you said that there should be about 70 bps improvement which should come because of the royalty. If I were to just look at last year, our overall margins were at about 13.7%. How should I look at margins for FY17 after taking into account the extra investment that you are putting on the technology and the employees and of course you have the saving coming through. So in full year how should we look at it?
- Anil Rai Gupta:** I think overall whatever we had maintained in the beginning of the year that we have continued to maintained. 13.5%-14% may be a little bit contributed by royalty. So anywhere between 13.5%-14.5%.
- Gunjan Prithyani:** Okay so a large part of royalty saving would get reinvested in the business in terms of technology and employee investments?
- Anil Rai Gupta:** That is right.
- Gunjan Prithyani:** Just a bit of more understanding on the strategic initiative that you are talking about. Are these focused around the new businesses within the ECD, sales because most of the other segments like switchgear and all are quite mature for us. So I am assuming that there is not much extra investment or employ additions that would be needed in that space?
- Anil Rai Gupta:** As I said even within switchgear if you see there is lot of focus on new products including within switches, a lot of new switches are coming up. A lot of home automation we have launched in the recent few months. So that is again technology-oriented. That all comes under switchgear and this is a high investment kind of business. Low volumes initially but high investment. So it is across the pool whether it is ECD, Lighting as many new opportunities which are coming up. So new initiatives rather than just looking into the trade segment, how do we look at the key account management in retail sector, and hospitality sector or even the IT sectors. So there is a lot of, I would say initiative which will help all these 4 segments in all the way. So it is not just focused on ECD.
- Gunjan Prithyani:** Last question from my side on the switchgear segment. I know a lot has been discussed but the kind of growth that we have seen is very good even if I take into account the low base of last year. So are there any significant margin gains that you are seeing in this segment or is there any specifics in terms of housing improvements that is shown as per you?
- Anil Rai Gupta:** I think housing improvement has been the worst in the last one year or so. So we do not see any improvement in the marketplace in the housing sectors at all and as far as margins, you are talking about expansion, I think people are looking at whether they are sustainable or not. So we will continue to say that we will be able to sustain these margins.
- Gunjan Prithyani:** My question is more in terms of growth because a 20% growth is ...

- Anil Rai Gupta:** Look, I think switchgear is more driven by the real estate demand in the country and I do not see that much changing at least in the past few quarters or past two years. When it will change I think we do not know. So whatever improvement in growth that you are seeing as I said one is because of low base, so a lot of focus on the company to expand the brand, bring in new products, focus on brands like Standard. So that is a lot of focus which is coming up. I do not see that there is a whole lot of demand scenario change. Also new products like pumps because pumps have grown by 100% in this 1st quarter. So all these things are helping. Exports has grown by almost 30% in the 1st quarter. So overall there are things which are happening. But I do not see the real estate part which is the sizeable user of this kind of product that has not really changing much.
- Gunjan Prithyani:** But it is fair to say that you would have gained market share in this segment, right?
- Anil Rai Gupta:** Yes, as I said because if you see new products we are expanding into Tier-2 and Tier-3 towns, it is very difficult to even say that we would have gained market share. In the parts of business, new parts obviously we have added.
- Moderator:** Thank you. We have the next question from the line of Mayur Patel from DSP BlackRock. Please go ahead.
- Mayur Patel:** Is it possible to give us a segmental break up of export sale?
- Anil Rai Gupta:** Largely switchgear, also part of it is lighting and fan some tractions have started taking place. It is largely switchgear.
- Mayur Patel:** So fans you said has already started picking up?
- Anil Rai Gupta:** Fans we were actually not doing much in exports. We now started putting focus. So we have started creating a network for fans in the export market front.
- Mayur Patel:** But was there any meaningful amount in this quarter?
- Anil Rai Gupta:** I would say a decent start but not in terms of big numbers overall as a percentage of fans sales.
- Mayur Patel:** One more thing on the switchgear side, is there any new set of products which you started in exports in this quarter?
- Anil Rai Gupta:** In exports, no.
- Moderator:** Thank you. We have a next question from the line of Pulkit from Goldman Sachs. Please go ahead.

Pulkit: This is Pulkit from Goldman. First thing I wanted to understand in this street lighting segment what is the execution capability that we have in-house. So what part of that do we do in-house and how much is typically subcontracted?

Anil Rai Gupta: Basically we have an in-house team which is managing the subcontract. So the entire installation is done by subcontractors.

Pulkit: So we are basically providing equipment and managing the execution part?

Anil Rai Gupta: That is right.

Pulkit: What is the kind of numbers that one can typically look at a medium-term. Internally could it be something like 100 crores business annually for us going forward?

Anil Rai Gupta: No, we are not putting any numbers to it because this is very opportunistic business. So I would not like to even give a medium-term number to this.

Pulkit: Secondly on the channel side, just wanted to get a sense of if you could try and give sense of channel penetration, so any particular geography where things have been sort of good for us or any new expansion that you could talk about because you spoke about certain initiatives taken on the side of having more people on the sales distribution side. So just wanted to get a slightly longer term view on the whole channel side for you guys?

Anil Rai Gupta: I think overall last couple of years we are putting lot of focus on making sure that we are better entrenched with the retail channel which is buying from our dealer and to go out and be with them. Treat them more like leaders and we are using a lot of technology, a lot of feet on the ground. For that we have revamped the way we go to the market. So there is an overall change which has happened in the last couple of years and I think over the next 1 or 2 years this will definitely give you a lot of insight into what exactly is happening in the direct marketplace rather than just with the wholesalers and dealers. So the entire focus of the company is to use technology to be closer to the last point which is the sell-out point which is at the retail level. That is what we are doing. I do not think in this call we can say much more than that.

Moderator: Thank you. We have the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Just one thing on the demand side of it. We have been highlighting for last 3 quarters that the institutional side of the business has been obviously picking up which is why even we have seen improvement in the cables and wires business as well. However, you did highlight that the retail side of the business is still relatively not as strong as it is supposed to be. My question over here is that if you could actually tell us that in terms of the growth which is actually coming up is it more penetration-led driven if you would like to highlight that part or probably just a function of new products?

- Anil Rai Gupta:** I think combination of both. Function of product as well as penetration.
- Prashant Kutty:** Because the reason is if we typically look at the next quarter as well we also again have a very favorable base for the next quarter as well. Have we seen any green shoots on the retail side of the business at least towards the end of the quarter or any early part of this particular month, something of that sort will probably give you some confidence in terms of relatively better number?
- Anil Rai Gupta:** First of all, I do not see that there is a very low base in the second quarter because traditionally 1st quarter is higher because of the higher fan sales in the summer season. It is not really a very strong base or low base in the second quarter. But your question is, are we really seeing the change in the last couple of months or so? No.
- Prashant Kutty:** It is still status quo in terms of demand?
- Anil Rai Gupta:** It is still status quo, yes.
- Prashant Kutty:** Again it is an extension of this part itself. In terms of demand, is there any specific trend in terms of whether Tier-1, Tier-2, Tier-3 which side of the demand has been good or any sense in that front?
- Anil Rai Gupta:** Generally, if you look at the last couple of years Tier-1 has been the laggards because as I said real estate has not done in the Tier-1 cities. Real estate is still doing better not good in Tier-2 and Tier-3 towns. That is because they are not very large builders, it is more of house buildings, that continuous to remain but not great which used to be. But Tier-1 definitely are laggard.
- Prashant Kutty:** Okay. So you have still not seen much of the pickup on Tier-1 side of it?
- Anil Rai Gupta:** No.
- Prashant Kutty:** Lastly one over here on the gross margin front. If you look at our gross margin numbers we were somewhere around close to 42.3% for the quarter again. I am sure it is a function of switchgear growth as well. But if we probably take some cue out of it going forward do we see there any scope of expansion over here in this front?
- Anil Rai Gupta:** First of all, if we look at business-to-business contribution numbers, I would say that there is no point in just expecting too much pricing power in this game so whatever we are already considered right priced kind of brand. So we will continue to look at these kind of margins.
- Prashant Kutty:** Because I am sure sir we have achieved and always expecting a 13.4%-14% but we have always been superseding it. So that is the reason I am asking you because we also have a royalty benefit coming up as well.

- Anil Rai Gupta:** Yes. As I said we continue to make good investment in brand, technology and people. So that is where I would be a little bit too cautious about that.
- Prashant Kuttu:** And lastly any number on the CAPEX front? Any big size investment lined up in next year?
- Anil Rai Gupta:** This is we had mentioned that we are setting up a new facility in Karnataka this year as well as Guwahati. So we are looking at 250-260 crores of CAPEX this year and we have already invested close to about 54 crores in the 1st quarter.
- Prashant Kuttu:** This 260 crores is for the entire next year, right?
- Anil Rai Gupta:** For entire this year, coming year.
- Moderator:** Thank you. We have the next question from Ashish Jain from Morgan Stanley. Please go ahead.
- Ashish Jain:** I have only one question. The employee cost the number that we are seeing in this quarter is that the run rate we should expect from here on or there is a room to further increase in that number?
- Anil Rai Gupta:** It could be similar.
- Ashish Jain:** So on absolute basis 125 crores is the run rate we should expect on a quarterly basis?
- Anil Rai Gupta:** Sorry. I cannot say this number on a line by line basis. I would not commit myself to this number.
- Moderator:** Thank you. We have the next question from the line of Charanjeet Singh from B&K Securities. Please go ahead.
- Charanjeet Singh:** Actually in the beginning of the call you mentioned about getting more and more people from the FMCG side. So would like to understand what are the kind of practices which we are trying to adopt in this consumer electrical business from the FMCG side and how are the distribution things which are being brought in or the best practices brought in from FMCG side.
- Anil Rai Gupta:** Well I would not say we are copying the FMCG model at all. All we are saying is there is a larger focus of the company on going on to the last mile which is the retailer and making sure that there is a visibility of sales there. So those are the kind of practices we are bringing. But if you ask me are we trying to follow completely FMCG model, we are not.
- Charanjeet Singh:** But it means that we will be adding more and more staffs to be there on the ground. Will that increase significantly going forward?

- Anil Rai Gupta:** I think that has already been the practice in last 1-1.5 years and a sizeable investment has already been made in the regards.
- Charanjeet Singh:** So we do not expect anything further additions basically?
- Anil Rai Gupta:** I will not say we will not continue to add. I would say please do not go line by line on these things. Just to get the larger picture of the results and what we expect out of the business. If you ask me how many people we will hire, how much will be the employee cost, I do not think this call is for that.
- Charanjeet Singh:** Okay. If we try to look at from the industry perspective how much would have been the growth in the switchgear as an industry and fans as an industry versus what the growth, we have delivered?
- Anil Rai Gupta:** Ideally at least in consumer durable and even in switchgear domestic we would have grown better than the industry.
- Charanjeet Singh:** So if you can give us some numbers like what has been the growth there in the industry?
- Anil Rai Gupta:** Not possible. In our industry unlike the auto industry it is impossible to get numbers from the competition.
- Charanjeet Singh:** So if I understood in the ECD and switchgear we grew better than the industry but in fans it would have been a similar kind of market growth?
- Anil Rai Gupta:** Fan is the largest part of ECD.
- Charanjeet Singh:** The last question is on the exports front. So how do we see the exports ramping up may be going forward in this year. Do we expect as we ramp up from the fan front also in the export markets? Can we see significant growth coming up?
- Anil Rai Gupta:** I think there is lot of focus by the company on the international markets and again some good investment in terms of people is also happening there. So yes we definitely see exports growing at a decent pace.
- Moderator:** Thank you. We have the next question from Atul Tiwari from Citi Group. Please go ahead.
- Atul Tiwari:** Sir in cables and wires you mentioned that the volumes is 20% year-on-year. Could you give some idea what was the growth on say the industrial side from the segment and how much was growth in the domestic or consumer side?
- Anil Rai Gupta:** Industrial was 28% and domestic was 12%.

- Atul Tiwari:** So sir if my impression is right, for quite some time now the industrial side of business has been growing at a very fast pace? Is that a right impression and is it because there is a genuine demand revival on that?
- Anil Rai Gupta:** I still do not feel that. First of all, low base. Secondly we also had capacity constraints which were taken care of in the last year CAPEX in terms of industrial cables. So that also has helped us gain a better share.
- Atul Tiwari:** Similar some kind of color is possible on domestic switchgear, basically industrial versus consumer side?
- Anil Rai Gupta:** Domestic is definitely better. Domestic growth is better than industrial.
- Moderator:** Thank you. We have next question from Jay Kakkad from Haitong Securities. Please go ahead.
- Jay Kakkad:** Just two questions. One is I just want to understand your plans on Standard brand. Where are you trying to position it and how are you avoiding the cannibalization of this brand with Havells? What is the branding and distribution strategy for this? That is the first question. Second question is on your appliance business. How is this appliance business different from your existing business today in terms of distribution and branding and what is your plan to scale this over the next 3-4 year period?
- Anil Rai Gupta:** Can we keep it at some other forum because I think if I answer all your 3 questions it will take me half an hour. Just keep it for some other forum please.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I will now handover to Kashyap Pujara of Axis Capital Limited for closing comments. Over to you sir.
- Kashyap Pujara:** Thank you so much to the management of Havells for being there on Saturday for the call and thanks so much to the entire investment and analyst community working on Saturday for this call.
- Anil Rai Gupta:** Thank you very much. Thank you.
- Moderator:** Thank you sir. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. Thanks for joining us. You may now disconnect your lines.