



“Havells India Limited Q2 FY17 Earnings Conference
Call”

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

MODERATOR: MR. SONALI SALGAONKAR – YES SECURITIES

Moderator Ladies and Gentlemen, Good Day and Welcome to the Havells India Limited Q2 FY17 Earnings Conference Call hosted by Yes Securities. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sonali Salgaonkar from Yes Securities. Thank you and over to you, ma'am.

Sonali Salgaonkar: Good morning, everyone. We, at Yes Securities are pleased to host the Q2 FY17 Earnings Conference Call for Havells India Limited. With us we have the Management Team of Havells India represented by Mr. Anil Rai Gupta – Chairman and MD; Mr. Rajesh Gupta – Director (Finance) & Group CFO and Mr. Rajiv Goel – Executive President. I now hand over the conference to Mr. Anil Rai Gupta for his opening remarks. Thank you and over to you, sir.

Anil Rai Gupta: Thank you, Sonali. Good morning, everybody. Thanks for joining the call. You would have reviewed the investor communication circulated yesterday. In this if you see the results, the consumer durables and lighting, ex-CFL, have registered a decent growth. The cables business has volume growth which is negated by commodity decline. The subdued housing and infrastructure segment continues to impact switchgear and power cables growth. The margins have remained stable with enhanced investment in brand and people. There has been an escalation inventory holdings in this quarter, partially to cover for higher growth in ECD segment and also seasonality. However, certain corrective steps would be initiated to keep the overall inventory under check. We are quite confident of economic recovery, and thus invest behind infrastructure to capitalize upon emerging opportunities. There is increasing focus on deeper network penetration, manufacturing expansion, brand proliferation and new product initiatives. We are quite positive on growth outlook for the business for the next half of the year.

Sonali, we can now proceed to Q&A.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. Our next question is from the line of Manish Agarwal of Bernstein Research. Please go ahead.

Manish Agarwal: Sir, I have two quick questions. Firstly, you highlighted that housing and infra segments have remained sluggish in the quarter, so do you expect this to continue or you are seeing some improvements in terms of specific end markets?

Anil Rai Gupta: Yes, if you see the last three or four quarters it has been patchy and I think we are not seeing any signs that it will be any different in the very near future. So, hopefully we are looking for some improvement but it is still to be seen. And I think the major growth which is coming in is through our expansion deeper into the channel, which means we are trying to gain market share. But definitely infra demand, industrial demand as well as housing demand continues to be sluggish at this present moment which is reflecting of the overall real-estate scenario in the entire country.

Manish Agarwal: Okay. Secondly, specifically on the switch gear segment, your 1Q was supported by strong exports so how have the exports been in the quarter and what is the outlook for the second half?

Anil Rai Gupta: I think Q1 was more supported by the lower base of last year, as we had told you that last year we had gone through some distribution changes which affected lower sales. So, as I said the demand has not really changed a whole lot, it is just because it is a lower base. I think as far as exports are concerned, there is a little bit of effect because of currency devaluation in the Western African markets, but exports are a major initiative for the Company, we are putting a lot of focus there as well and I think that should bring out good results in the coming future.

Moderator: Thank you. We have the next question from the line of Pulkit Patni of Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, just something more structural, we have seen inventory increase a little bit over the last couple of quarters, we have seen the employee cost also go up. If one was to look at a two-year kind of a horizon, is there something structurally where you are looking at a much bigger geographical spread or something to that extent which this is a leading indicator to? Anything on that side would be very helpful.

Anil Rai Gupta: First of all, I would take the employee part. Definitely there is, I would say, a structural improvement or change which is happening and I think there we have taken a conscious effort since last year third quarter, whereas we are putting in the right deployment of manpower to go deeper down into the market penetration. And not only that, we are putting a lot of focus on R&D, we are putting a lot of focus on manufacturing and supply chain. So there are enhanced expenses on the manpower deployment which obviously is a transition phase, it is more like an investment for the next one or two years and I think all these will start bringing in results. Even a deeper penetration in the distribution channel going in smaller towns is product-to-product, it is not just we take the entire product range and do a launch all together. Basically, ensuring that every product gets its right due share which is something more of an investment right now. And hence, we believe yes, I think you put it rightly that there is a structural change which is going to happen in the next one or two years which will overall bring in a lot of benefit in the next few years.

Rajiv Goel: Also, I think Pulkit, we believe that the initiative which the government is also taking, maybe it is taking time, but I think these will ultimately result in larger demand, not only at the metros but also at the Tier-II, Tier-III towns. So, to some extent one can always argue what is the timing of the same, but we remain very sanguine about the future and I think we want to be prepared for the same.

Anil Rai Gupta: And I think the question about inventory, I do not see that is a major structural change here at this stage. We have a few more products which are now becoming seasonal in nature, earlier we used to have fans and now water heater is becoming a bigger part of the portfolio, domestic appliances are becoming a bigger part of the portfolio. So, we see more seasonality in these

product categories. Even in fans, though we have been there in the industry for more than 10 years or so, this year we try to smoothen the production to get some benefit, not only in cost but also ensuring not losing out sales during the season period. So, there are some conscious efforts, plus also because the growth expectations were similar in all categories there has been a little bit of inventory built up and I think that can be corrected through a better supply chain system in the next half or so. So, we are not too concerned about the inventory, it is all good inventory and I think most of it is conscious decision that we have taken which cannot be looked at quarter-over-quarter and I think after every quarter the season will be different so the inventory levels will be different at some point of time. This is the first time we have really started focusing a whole lot on making sure that the product is available before the season, so hence there might be certain corrections which might be there. But I think overall this should not be much of a concern.

Pulkit Patni: Sure sir, that is very useful. Just my second question, and please feel free not to answer because it is more about the estimation. We are in the first 19 days of October; does it feel to you like a festive season or not really?

Anil Rai Gupta: I would not comment on this right now.

Moderator: Thank you. Our next question is from the line of Ranjit Shivram of Antique Stock Broking. Please go ahead.

Ranjit Shivram: Regarding the growth, will it be possible for you to break out the growth in terms of industrial and consumer facing for the first six months of this year?

Anil Rai Gupta: Overall, actually if you see industrial cables is the product which mostly goes to industrial demand, plus part of switchgear which is going to industrial demand. I do not see there is a whole lot of difference between industrial demand and residential demand at this present moment, both are sluggish and subdued at this present moment.

Ranjit Shivram: And anything under consumer durables, is there any particular product category which is helping us show such kind of growth? If you can add some, I know you do not give separate breakup of fans but at least is there any particular product category which has enabled us to show this kind of growth?

Anil Rai Gupta: No, I would say, first of all there are three major product categories, all three have grown definitely much better than the competition, we believe even in established product categories like fans we have gained market share, otherwise this kind of a growth would not be possible. But, also the fact is that after sometime product category, when it comes into maturity in terms of, not really in terms of growth volumes but in terms of distribution channels, in terms of product range, then it starts getting major impetus in growth and this is where we feel the water heaters reached that stage after four years and also one and a half, two years now with our new plant which has come up. So, we have seen more and more products available to the market

place, we see a better distribution available for water heaters. So, now we say that it is in a stable phase and we are seeing good growth coming out of that. We definitely feel that the domestic appliances, though showing a good growth because of low base, but it is also now reaching that stage of maybe in the next six months to one year it will reach that stage where there will be a faster growth coming in this product category. We definitely feel that ECD, all three product categories will grow in a decent rate according to the size of the category.

Ranjit Shivram:

And we get to hear a lot regarding this premiumization, premium fans are growing much faster rate, so is that one of the reflection in your higher growth, is it because of higher sales of premium products that we are able to increase the value terms growth while the volumes terms growth might not be as great as value terms, is that some kind of a change which you are seeing in the market?

Anil Rai Gupta:

I think; I might take a couple of minutes here to just explain. First of all, this whole premiumization is being misunderstood a little bit. When we say that Havells is a dominant player in the premium fan, it does not mean that we are in luxury fan, it only means that we are not in the economy segment which is cheap fans, which is not a very good quality product, which a lot of a market players had entered into that segment to cater to, let's say, counter the unorganized sector. And I think to some extent they have started realizing not only it affects their margin, it affects their consumer perception also, hence the people have started talking about they moving towards premium fans. Basically, they are trying to correct their product portfolio. So, we have always remained as a mass player for fans for the consumer but we also ensure that we give a better quality product, we do not give cheap quality product and economy fan. So we have always remained that, and the entire portfolio has been improving as a category for us. So what you see as a value growth is also the volume growth for Havells.

Ranjit Shivram:

So you mean to say that there is no major difference between the volume and value growth under fans?

Anil Rai Gupta:

That is right.

Moderator:

Thank you. Our next question is from the line of Ashutosh Narkar of HSBC Securities. Please go ahead.

Ashutosh Narkar:

Sir, two questions, one is on your consumer durables portfolio and second is just a follow-up on the volume argument. If you could just highlight to us what has been the volume growth in the past two quarters and especially this quarter, and how do you anticipate that to move ahead? We are initially seeing signs that consumer spending in this festive season, at least for the early part has not been as great as what was anticipated. Second, given that GST discussions are moving towards three different slabs, where do you see it stabilizing and what could be the potential impact? And the third one on the ECDs, the other appliances part is where we have the maximum growth potential now which is where we also have a low market share of 2% - 3% right now.

Would that mean that we will have to launch multiple new products and we would spread ourselves or just want to try to understand how would we try and monetize that opportunities?

Anil Rai Gupta:

See, if you are talking specifically consumer durables, there is not major difference between volume growth and value growth. In certain product categories, there have been price corrections also because as you rightly said the domestic appliances is a vast product category. So, the fact is, I would say not going by 0.5% or 1% detail but there is not much difference and we see volume growth coming in these product categories as well. And you can very well imagine that in this margins are also improving, so there is a lot of focus on cost efficiency which is improving the margins, not really the price increases.

And GST, I think it is too early to comment upon that, unless and until we know the exact rates it would be difficult to comment. But overall if you see it will be far better for brand oriented companies or quality oriented companies because we believe definitely that overall GST rates should be lower than all taxes put together which we are paying today. And hence this brings a lower price to the consumer, which means the unorganized sector, their advantage of evasion of taxes or something, that will continue to go down and hence it will not only help Havells but a lot of branded sales overall in the industry.

And as far as domestic appliances are concerned, I think I mentioned a couple of questions earlier that there is a stabilization stage which is coming in the domestic appliances. In the initial one or two years, three years, because this is a larger range than many of our other product categories, it takes time to get this product range suited for all kinds of the market at a certain level. I think we are reaching that stage that in the next six months to a year we will have stabilization not only in the product range but also in the distribution channel and hence we should be seeing better growth there. I do not think there would be a whole lot of addition of new product categories to support growth in this segment for us.

Ashutosh Narkar:

So, would our marketing and distribution expenses increase given that we would try and focus on expanding the market share in the segment?

Anil Rai Gupta:

No, this is a reflection of, as the volume goes up it will be a percentage of the volume, so we do not see any disproportionate change in the marketing and distribution expenses.

Moderator:

Thank you. We have the next question from the line of Renu Baid of IIFL. Please go ahead.

Renu Baid:

Sir, the first question is just to understand a little more on the switch gear side. We understand the growth is moderate, but the margin expansion that we have seen, the contribution level, would that be attributable to certain specific measures the company has taken or largely because of mix between the categories which we operate?

Anil Rai Gupta:

I think couple of things, one is, definitely the measures which we have continuously have been taking to making sure that we are available to the consumers with a right price all across the

country, so unlike many other companies we do not discount our product, we keep the right price for the consumer. So, there is a high degree of pricing discipline in the entire organization which is helpful in maintaining, and in some cases improving margins. I do not see this 1% or 2% improvement as a major thing because it can vary quarter-to-quarter depending upon the product mix sold during the quarter. There is no major shift amongst the categories of switchgear, but within the switchgear category there could be seasons where certain products sell higher at a higher margin, but I do not think we need to really give that too much importance. Generally, it should be in that range only because the kind of pricing discipline that we maintain we do not expect too much of a positive or a negative surprise on either side.

Renu Baid: So, no specific contribution because of pumps in this particular quarter for the category margin?

Anil Rai Gupta: Sorry, no pumps for category margins?

Renu Baid: Yes, no specific impact or contribution of pumps as a category for the entire segment margins?

Anil Rai Gupta: Pumps is still a very, very small part of this entire category.

Renu Baid: And what about with respect to the mix of standard in the sales mix for the switchgears?

Anil Rai Gupta: Well, standard, because of the conscious efforts and a good opportunity there, we are definitely seeing a good growth coming out of standard. But I think standard, the entire sales does not come into this category because there are more product categories of standard like fans and wires which fall into the wires, cables and fans category. So this is only the switchgear part of standard coming into this category.

Renu Baid: Sure, my second question, coming to the ECD again, just trying to understand a little more on the fans category and we have been doing fairly well there, this quarter again the segment has grown 22%. So, is it that fans have sustained that 18% - 19% kind of growth which we saw in the first quarter or probably the growth has further improved and what are the drivers for this better than expected growth in the fan segment?

Anil Rai Gupta: So, I think overall we can say that fans has been growing faster than the market and definitely it is in double-digit. I am not sure whether we gave any percentage earlier in the first quarter or how you deduce that, but we can say that we are growing at a double-digit which is definitely faster than the market and competition.

Renu Baid: But within this you have nothing particular to highlight, any particular region, say for example the western region where you have gained market presence, that is contributing for the incremental growth or it would be very broad based?

Anil Rai Gupta: I think most of the incremental growth is coming because of a lot of focus during last one and half years on product range. So we are giving more and more newer models which are attractive

to the consumers and which is in line with our positioning for the market. So, as I said earlier that we are not into the cheap and economy fans, which means we have to invest definitely more in product design and that has shown good results in getting us growth in fan segment.

Renu Baid: And sir, one question was, if we see over the last one year, specifically the last six-nine months across most of the players, they are trying to realign the channel-to-market strategy, the distribution channel, focus more on retailers, trying to rationalize the dealer distribution network. So, we have also initiated similar steps and do you expect major changes in our approach to market, especially for non-switchgears or wires and cables segment of the market, any particular strategy that you would like to highlight here?

Anil Rai Gupta: No, I think we talked about it a year and a half back where we made a few corrections, but that was a very short time and I do not see any reason, we believe that this industry is well suited for a mix of distribution, direct dealer network and wholesale. And that is what we continue to focus on and we do not see any change in our strategy there. There is definitely a better push to get direct access to the retailer through this channel only, so for us the channel which is our present 5,000 to 6,000 distributor and dealers, they will continue to remain very important for us. But to generate better sales for us there is a larger focus to get deeper and deeper into the retail network.

Renu Baid: And sir my last question is, on the EESL segment we mentioned last quarter we had about Rs. 35 crore orders pending of which most of it we have executed this quarter. So, do we have enough pipeline for the next six to nine months or you think broadly one might see this segment moderating out in the second half of the year?

Anil Rai Gupta: At this moment we always feel this as more opportunistic kind of a business where you can make better margins. So, at this moment we cannot give you any numbers how this thing will perform. We are not really after numbers in this kind of a scenario. At this moment if we look at it, it will be lower than the first half but you never know, if some better opportunities come then we will come back.

Moderator: Thank you. We have the next question from the line of Jai Kakkad of Haitong Securities. Please go ahead.

Jai Kakkad: I just want to get more details on your plans for exports, because you highlighted that there is a lot of focus on exports. In a domestic market we understand there is a distribution network and brand presence, on exports what is your focus area and how are you planning to ramp it up?

Rajiv Goel: So Jai, I think export will pretty much mirror Havells' strategy in India. Obviously, there could be certain constraints like cables and all those other businesses which you can export because they are freight and friendly. Apart from that this strategy is pretty much to establish the brand, have a selected local presence and launch all the verticals, not just switchgear. You are aware the switchgear is our flag bearer when we started this export 15 years back and today the switchgear almost constitutes to 75% to 78% of our total exports. We believe in next three years

it should be around 50% by growing other parts of the businesses, namely lighting and also the ECD business. So, this is what the entire focus is and that is how we are also hiring people in local market, for instance Dubai and Africa which will also then look at the verticals and grow every vertical pretty much strategy we have successfully deployed in India for Havells. And this will be all under Havells brand.

Jai Kakkad: So, from a three to five-year perspective what kind of a target you have in mind for this exports business?

Anil Rai Gupta: See, currently we have 3% - 3.5% of Havells, I think we believe we should be doubling this percentage. The ambition is that we should be 7% - 8% of Havells business as exports.

Jai Kakkad: And the second question is related to the distribution channel, so in the distribution deepening part that you highlighted on the distribution side, what is your bigger focus, is it to deepen more into ECD or deepen more into switchgear because I think there is a slight overlap but they are a different channel altogether. So, which is your bigger focus are?

Anil Rai Gupta: Everything.

Rajiv Goel: I think the opportunities is everywhere, so we will not distinguish or discriminate against any product, I think every product category has their own plans, there will be overlap as well as there will synergies. So, I think we will go as Havells and we will not distinguish. A certain ECD product category may require certain specific channel but that would not mean that other product categories will not evaluate and penetrate deeper. So, I think in India electrical channel has not really penetrated deeper and which has to be done now.

Jai Kakkad: And just one follow-up on this, so just to understand the potential from deeper penetration, I just want to understand what would be a percentage mind share or percentage shelf for every retailer currently for Havells brand?

Anil Rai Gupta: It varies from area to area, product-to-product. So, if it is a multi-brand let's say fan outlet it could be anywhere between 15% to 20%, it is more of a switchgear outlet generally where there are whole lot of multi-brand things. It depends upon whether it is a wholesaler or wholesaler-cum-dealer, or dealer-cum-retailer, or a pure retailer, it is very different and that is a much longer answer to give on this call.

Jai Kakkad: The idea is to understand the way in which you are deepening the channel, so how...

Anil Rai Gupta: So, the whole idea is to get a better, let's say, a wallet share or a shelf share at the counter. And there are two strategies to do that, one is to have more of your products in to the counter if the counter is available to sell those kind of products. And obviously, within the same product category you get a better share. And I think the entire competition is working towards that strategy and this is how better product, better consumer acceptance, how fast a product moves

from the counter, all these factors are very important for a dealer mind share to move towards a brand.

Jai Kakkad: Sir last question, what will be the percentage, so is it the new material that you have gathered based on retailer and electrician kind of your network? What would be the percentage revenue share between Tier-I and Tier-II, Tier-III?

Rajiv Goel: I think it still will be very Tier-I loaded because you will have to appreciate that a lot of Tier-I distributor also double up as the financers for Tier-II, Tier-III. So, let's say currently it will still be more than 70% loaded in favor of metro in Tier-I. I think it is a process which will take few years.

Moderator: Thank you. Our next question is from the line of Rahul Swaminathan of Spark Capital. Please go ahead.

Rahul Swaminathan: Sir, just wanted to know in the lighting segment we continue to do good contribution margins of around 25% - 26%. Given the fact that CFL has been declining, I assume that the margins in that particular segment would be shrinking. Does that basically mean that margins in LEDs and fixtures have actually sustained or have gone up? And what is your view on the entire segment, can margins be sustained at these levels?

Anil Rai Gupta: See, as far as CFLs is concerned it has come down as a percentage of overall, so it does not really have a big overhang on the overall margins, it has come down to almost 16% now to the overall sales. We definitely believe that these margins are sustainable, if you pick up a newspaper the number of advertisements after telecom is from LED players, so there is a plethora of manufactures who have come into LEDs. But still they have been able to not only sustain and improve margins, it is because of the focus on the product, as well as the brand, as well as the distribution channel. And I think our major focus has always been to go to the consumers whether it is a residential consumer or industrial consumer or a commercial consumer, it is to go with the product theme rather than just a price theme. And more and more of the LEDs is becoming a solution theme, especially in larger installation. So, with all these things I think LED as a cost of the overall component might be low, it will be still looked as a final product and a solution coming out of a brand rather than just as a commodity. So, this is how we plan to sell and that is why we are quite confident that we will be able to maintain our margins there.

Rahul Swaminathan: And regarding the other new business like automation and smart solution products, you had launched it a couple of quarters ago so how was the traction in that and how do you see that how big can it grow over a next two to three-year period?

Anil Rai Gupta: See, that industry is a very small industry, right now the total size of the industry is less than Rs. 100 crores and we see this more as a potential for future and this is something which should not only grow slow in volumes and will definitely help enhance the products of our other sales as well. So, we go as a solution to these final consumer, right now it is for very high-end niche

consumers but over a period of time as costs keep coming down this will become a larger play. So, we want to be in this play, I do not think it will have any meaningful volumes to talk about at this present moment.

Rahul Swaminathan: And pumps, do we see this as a very big category over a two to three years' period? Because players like Crompton, etc., have done very well in that and the other players are also focusing on agri and residential pumps. Given that we have our distribution network already set, can this be read as a bigger segment?

Anil Rai Gupta: Yes definitely, I think this is not only a product well-suited for our distribution channel but also the consumer also sees us in his mind share from that point of view. So we are definitely seeing a good growth coming out of pumps and this can be a sizable category in the future.

Rahul Swaminathan: Are we increasing our product reach in this, are we confined only to the residential space or do we have product offering in agri also?

Anil Rai Gupta: Not at the present in agri, but definitely we are increasing our range in terms of getting from monoblock pumps to submersible pumps now.

Rahul Swaminathan: And our CAPEX guidance for this year and next year, we did some Rs. 120 crores of CAPEX this first half?

Anil Rai Gupta: So we will maintain I think it will be between Rs. 250 crores to Rs. 270 crores this year. We have not spoken about next year but we will come back later on that.

Rahul Swaminathan: Apart from that Bangalore facility is there any other new investments we will be making or it is regular maintenance CAPEX?

Anil Rai Gupta: No, so there is another facility that we will be putting up which is coming at Guwahati, so these two new facilities would be coming up.

Rahul Swaminathan: And that Guwahati facility would be for?

Anil Rai Gupta: That is for switchgears.

Moderator: Thank you. Our next question is from the line of Brijesh Ved of BNP Paribas. Please go ahead.

Brijesh Ved: Sir, my question was broadly on the new product strategy, just if you can speak a bit about your criteria of selection for new products and new lines. Also, how do you really maintain the balance between having that focus and diversity? And a bit of synergies in terms of your existing distribution network, is this one of the criteria that you look at and also between the brown and the white goods? So just broadly your long-term strategy that you are looking at.

Anil Rai Gupta: I think you mentioned one of these reasons for launching new products is the synergy with the channel. So I think in some sense brand and channel and affiliation with the same is the key criteria. It would not be 100% compatible but if there is a start we get from the channel I think that will be the key criteria and that is how we have launched this in the last sort of two decades, the products in the same. And that is how we are going to launch a new product as well. So, I would not go too much into specificities of new product initiatives, but you are aware we are launching solar products, we believe it is pretty much compatible with our branding as well as channels. And also, we are evaluating the water purification business as well. So one of our strategy will always be having affiliation with the consumer to go deeper into the consumer homes. So this all covers that. And what was the other question you were talking?

Brijesh Ved: In terms of the criteria between selecting incremental products between brown goods and white goods.

Anil Rai Gupta: White goods, we are not there, so white goods we are not currently thinking about. Because, again the channel is different there, so I think that is something which has to evolve. I will not rule out that there something will never be in the consideration, but as we speak we are more fixated on leveraging the channel which we believe is the key asset in a country like India.

Brijesh Ved: And another question I had on relation to this is, also your thought process on growing inorganically either in the existing product basket or the new ones?

Anil Rai Gupta: I think that template is always there, it is just that you get something which is relevant and justifies the valuation which again is very difficult task in India, I am sure you are aware of that. But, inorganic will be opportunistic, I think there is something we would not wait for, if something comes along we will always evaluate with an open mind. But I think our entire focus is to really do the organic growth, we believe there are significant opportunities in India both in existing as well as new initiatives.

Brijesh Ved: Next question for me was on advertising, while your gross margin has been pretty decent this quarter as well there has been a bit of increase in terms of employee cost and advertising expenses. On a year as a whole, just wanted to get your sense in terms of what sort of spending are we likely to do?

Anil Rai Gupta: So, I think we will be pretty much consistent of seeing a ~ 3.5% of sales, this is what we have been maintaining. Quarter-over-quarter, look advertisement growth does not have too much meaning but we do not see any abnormal increase, as a percentage of sales they will continue to remain the same.

Brijesh Ved: And therefore in terms of the EBITDA margins you are confident of maintaining the margins?

Anil Rai Gupta: That is the endeavor that we should continue to maintain our EBITDA margins.

- Moderator:** Thank you. Our next question is from the line of Atul Tiwari of Citigroup. Please go ahead.
- Atul Tiwari:** Sir, in the beginning you mentioned that in second half you expect good growth. However, infra, industrial and residential are unlikely to pick-up over such a short-run. And obviously the year ago, revenue comps will also suffer because we saw third quarter and fourth quarter in FY16 good growth quarter. So, can you throw some more light, I mean, why do you expect good growth in the second half given all the factors?
- Anil Rai Gupta:** I think the growth we are expecting is in-line with H1, so I think maybe we are more confident on the economy rising-up gradually and hopefully this should happen in H2. And definitely I think we will be sort of working hard, when the going gets tough the tough get going, I think we have to work that much harder, I think that is something we take upon ourselves to do it. So, obviously there would not be any sort of signs to it we will take this how it will come, but we believe that somewhere as the economy is, whatever initiatives are being taken should start showing up, now whether they happen next quarter or quarter after next I think this is something we will have to work with. But yes, I think as a company we definitely believe we should be improving from where we are today.
- Atul Tiwari:** And sir my second question is on the entry of EESL, into fans and other consumer durables. So, we have seen Havells participating on the LED side opportunistically, so what is the status on the fan and other durable side, has EESL already gotten into this segment in any substantially and what impact have you seen on the market place and whether you will be participating on fans and consumer durable side also, opportunistically?
- Anil Rai Gupta:** Well, at this moment the way EESL has started this process, it is basically to replace the unorganized sector at very low cost. And hence I believe that it is not something which is affecting our market space and also we believe that we will not be participating in those kind of businesses because it does not suit our brand or product strategy. So, it is still early days, we have not seen any major effect of whatever start has been taken in the consumer durable space in the market place at this present moment.
- Moderator:** Thank you. We have the next question from the line of Gunjan Prithyani of JP Morgan. Please go ahead.
- Gunjan Prithyani:** I just needed a bit more clarity on this working capital, I thought there is not much seasonality to some of our segments and if I look at even on last couple of years, working capital days has been in the range bound in the 15 to 20 days and it seems to have gone up to 30 days in this quarter. So, I am just trying to understand that is this something which is now going to stay at an elevated level, how should we look at it? And you did mention there would be some corrective action, so some sense on how we should be looking at this now.
- Anil Rai Gupta:** So I think as we have already said there is product which have some seasonality in nature, they are also growing at a faster rate, and hence a little bit of inventory buildup because of that. And

as I have already said and you also understood that there will be certain corrective steps, so right now we might be seeing this at a higher end of this and we should be seeing working capital coming down to lower base. I do not want to give any number because all these things will take some time to effect, but it should be done.

Gunjan Prithyani: But sir, is it fair that this is going to be now higher than what we have seen in the past because some of these segments we are now growing or foraying into let's say appliances which are typically more seasonal products and you will need to keep more inventory around those products. Is it fair that it should be now at a relatively higher level versus what it has been in the past?

Anil Rai Gupta: It could be, I think over a period of time let us see how efficient our supply chain can work upon that, but I think it could be higher.

Gunjan Prithyani: And sir second question on the volume growth in the cable segment, now we have been mentioning that this has been impacted by commodity deflation but there seems to also be a moderation on the volume growth here, is there something which is specific to this quarter for the cables and wires segment?

Anil Rai Gupta: So I think overall the kind of demand that we have been talking about, even on the infrastructure side, industrial side, there has been a little bit of slowdown in terms of demand pickup or I would say that there is no major improvement coming up. So, that is only the reason, I would not see any other reason which is reflecting there.

Gunjan Prithyani: And just last question on the growth, now you did mention that second half is going to be better than first half, and I think someone else also asked this that the base for second half started to get more demanding from last year onwards because third quarter and fourth quarter were good growth quarters for Havells last year. So, are we confident that we should be able to maintain this 13% first half growth going into second half?

Anil Rai Gupta: So, I am not sure whether we said second half is better than first half in terms of percentage of growth, but we do maintain that initially we had estimated that there will be a double-digit growth for the entire year and that is something which we will continue to endeavor. There will be a higher base, there is a higher base last year but I think that is where the initiatives of the company will get benefits from.

Moderator: Thank you. Our next question is from the line of Vikas Mantri of ICICI Securities. Please go ahead.

Vikas Mantri: Sir, wanted to understand the lighting segment, can you give us the share of LED segment in it?

Anil Rai Gupta: It is around 70%.

- Vikas Mantri:** Sir just understanding the LED segment margins, now given LED as a business is a long period product and will require warranties and maintenance, does this mean that we have provided higher for all of these as compared to two years when we were doing CFL? And can you help us explain that what is the quantum that we need to provide?
- Anil Rai Gupta:** We are providing for everything, for example there are higher warranty expectations in case of EESL tenders, so we have provided for higher warranties. So, whatever is represented there it completely takes care of that.
- Vikas Mantri:** But sir just to understand from a product wise, we would have provided for CFL, what is the change that we need to do for this product? So on maybe a 1% or 2% more of revenues, is that an estimation?
- Anil Rai Gupta:** So, for example, on the product side if you understand, CFL there used to be higher return because of the kind of product that it was and so we had to provide for higher returns there used to be a guarantee for one year or two years. In case of LEDs, though it is a longer-term product there are practically no returns from the consumer and hence this is reflecting differently. CFLs is a completely different product category than LEDs.
- Vikas Mantri:** So it would not matter so much relatively?
- Anil Rai Gupta:** Correct, that is right.
- Vikas Mantri:** Sir, on the lighting segment, now that LED is the major component and CFL is hardly 16%, what do you think is the fair growth estimate for an industry level, I am not asking about Havells?
- Anil Rai Gupta:** Industry should be pretty good, I mean, generally it is going to be similar to the growth of the economy which is how we see the switchgear growth coming, how we see the consumer durables growth. So, it should be in line with the...
- Vikas Mantri:** Sir, just because the transition was happening is it not expected to be higher?
- Anil Rai Gupta:** Yes, but I think the transition is still at a very nascent stage and it will take some long time for countries like India to transition completely to LED. When you say transition, means are you talking about replacement?
- Vikas Mantri:** Yes, CFL to LED translation for country India.
- Anil Rai Gupta:** Yes, it is going to happen. I am not understanding, when you say transitioning means one is there is a replacement for old product to come and replace new product, so that is one part which will continue, in certain offices or homes changing from old product to a new LED product. And the other is the overall industrial transition which is happening.

- Vikas Mantri:** Yes sir, so I am asking about the overall industrial transition because lighting as a segment I would have assumed to grow it at nominal GDP rate growth, but given CFLs are declining they will tend to grow lower or actually degrow and LED should grow much higher to compensate for the degrowth of the CFL, so that I was trying to figure out.
- Anil Rai Gupta:** This is happening but I would also like to caution you on this expectation that it will be nominal GDP growth because in the electrical industry especially two or three things will happen, the overall electrical installations will continue to increase at a faster pace than the GDP growth. The other is, because of the availability of power, the availability of quality power will also improve the electrical installation demand. The third thing is the overall per capita income increasing which eventually in most of the countries eventually it means more lumen output per person also. So, like earlier in the house you used to have a tube light in a drawing room, today you have maybe 10 down lighters in a drawing room. So it is the overall per capital consumption of lighting will continue to increase. So it is not safe to assume, it is not right to assume the electrical demand will only grow at nominal GDP growth.
- Moderator:** Thank you. Our next question is from the line of Achal Lohade of JM Financial. Please go ahead.
- Achal Lohade:** Sir, just wanted to understand, you said you are still kind of looking out for inorganic growth opportunities, however, nothing on the board as of now, is that understanding right? In that case how do you plan to deploy the cash and the strong cash flow we are generating quarter-after-quarter?
- Anil Rai Gupta:** Well, I think right now we do not have any specific plan to deploy cash otherwise, we have already communicated our CAPEX plans. definitely cash generation would be there. And this is definitely war chest available to do any acquisition that we have in mind for the growth of the organization.
- Achal Lohade:** Second question I had was, might be at the cost of repetition I am asking sir, if I look at the industrial cables just for my industrial demand point of view, it seems to be seen quite significant deceleration. What I am trying to understand, it will remain volatile, so it could be 8% volume growth, can go back to (+20%) what we had seen in last several quarters, four-five quarters, would that be still a fair assumption?
- Anil Rai Gupta:** Well, it could be, but it is difficult to say unless and until there is a major shift coming up from infra demand as well as industrial demand, because it depends on how much CAPEX is now happening in the overall economy as well as infrastructure projects which keep coming up. So, let's wait and see, I think it could be higher but we would love it to be higher but let's see over the next couple of quarters.
- Achal Lohade:** Just last question on the standards, would you be able to comment what would be the annual revenue of standard as of now, how do you plan to scale it up further for next three to five years point of view?

- Anil Rai Gupta:** Well, last year our revenues were in the range of around Rs. 280 crores to Rs. 290 crores, this year we are looking at somewhere close to about Rs. 360 crores to Rs. 370 crores.
- Achal Lohade:** And this would be both switchgears as well as wires?
- Anil Rai Gupta:** Switchgears, wires and fans.
- Moderator:** Thank you. We have the next question from the line of Bibhha Kashyap of Narnolia Securities. Please go ahead.
- Bibhha Kashyap:** Sir, I just wanted to ask about switchgear segment. Like we see only 3% growth in this current quarter, so will it be continue to be the same for next two quarters?
- Anil Rai Gupta:** I think we have already answered this question.
- Bibhha Kashyap:** Yes sir, but it was not audible that time so that is why I am asking.
- Anil Rai Gupta:** So first of all, switchgear growth is 5% in this quarter and in the first quarter it was 17% because it is over base, so overall we had about 10% to 12% growth. We definitely would want that this kind of growth should sustain in the third quarter and fourth quarter.
- Bibhha Kashyap:** Sir, in previous call you said about debt that will be around Rs. 220 crores, so is it the long-term and short-term and what will be the debt level in FY18?
- Anil Rai Gupta:** We are a net cash positive company, I do not know which is the debt number you have taken. Debt is only 22 crores.
- Bibhha Kashyap:** Okay. Sir, what will be the tax rate?
- Anil Rai Gupta:** 28%.
- Moderator:** Thank you. Due to time constraints, we will be able to take one last question. The last question is from the line of Lakshmi Narayanan of Catamaran. Please go ahead.
- Lakshmi Narayanan:** I have two questions. First, in terms of your distribution, in the last six months what how have we grown in terms of distribution, broadly any direction it will be helpful, and any changes in the way which we distribute things. Second question is in terms of lighting and fixtures, you had mentioned that 70% of your revenues of lighting and fixtures will be from LED, I presume that includes fixtures. And also want to understand, in that particular part what is the edge you have over others, is it distribution or is it something else because that seems to be getting quite fast commoditized.
- Anil Rai Gupta:** First of all, as far as distribution is concerned, I have mentioned that electrical industry is a mix of, the reason they call it FMEG and not FMCG is that it is not purely FMCG model, it has a

mix of distribution model, it has a mix of wholesale plus the direct dealer network as well. So, we do not see any major change in our distribution strategy to focus on that and there is a continuous growth which is happening both in the direct dealer distribution level as well as the retail access level. So, that is a continuous growth which continues to happen. As far as lighting is concerned, you are right that the 70% LEDs include fixtures and today more than 60% is fixtures for us as compared to lights sources including CFL and LED lamps. There if you know that the company has invested in a major plant in manufacturing fixtures which no other organized player in the country has, I think we have invested close to almost Rs. 100 crores.

And you asked about the differentiating factor, we do not consider as a commoditized product as far as fixtures are concerned, it is still a solution which the consumer is looking, less for a residential consumer but more so for an industrial or a commercial consumer. So the more and more you put into the product and the final outcome for the consumer if you are able to convince, then it is sold as a solution rather than a product. So there is a major, I would say, push towards how we can position it as a brand and a solution rather than just selling it as a commodity and I think it will continue to remain the same for us. And the lighting players at least will move and gravitate towards that rather than treating it just as an electronic product.

Lakshmi Narayanan: And when you assume fixtures, we have mentioned some 60%, I mean, that includes one part of it or it is just a pure fixture and you are taking the lights out of that?

Anil Rai Gupta: Lighting can be seen as two part – one is lighting fixtures which is houses the light source and the other is the light sources, so all bulbs come into light sources which are CFLs and LED lamps for us, or some other bulbs like metal halide and halogens. So that is about 40% for us, 60% is fixtures.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to Ms. Sonali Salgaonkar of Yes Securities for closing comments.

Sonali Salgaonkar: Thank you. On behalf of Yes Securities, I would like to thank the management of Havells India. Likewise, I thank all the participants for attending the call. Thank you.

Moderator: Thank you. On behalf of Yes Securities, that concludes this conference. Thank you for joining us, Ladies and Gentlemen. You may now disconnect your lines.