



“Havells India - Acquisition of the Consumer Durables
Business of Lloyd Electric”

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Havells Limited
February 20, 2017

Moderator: Good day ladies and gentlemen and a very warm welcome to the Havells India Conference Call on Acquisition of the Consumer Durables Business of Lloyd Electric hosted by Motilal Oswal 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 Mr. Ankur Sharma from Motilal Oswal Securities. Thank you and over to you Sir!

Ankur Sharma: Thanks Ali. Good afternoon ladies and gentlemen and welcome to the Havells India call to discuss the acquisition of Lloyd Electric's Consumer Durable Business. With me today on the call are Mr. Anil Rai Gupta - Chairman & Managing Director, Mr. Rajesh Gupta - Director Finance & Group CFO, and Mr. Rajiv Goel - Executive President. I would like to hand over the call to the management for their opening remarks and then we can have a Q&A session. Over to you Sir!

Anil Rai Gupta: Thank you Ankur. Good afternoon ladies and gentlemen. As you might have been aware from the desk reports that Havells India has announced that this board has approved the acquisition of Lloyd's consumer durable business, which is not known as the Lloyd Consumer Business. This acquisition when it will be completed will mark Havells' foray into consumer durable industry. The acquisition is proposed to be executed at an enterprise value of around 1600 Crores on a debt-free, cash-free basis, subject to closing adjustments. We plan to acquire the consumer business infrastructure, people and distribution network, and the complete intellectual property of brand Lloyd, Logo, Trademark, Goodwill, and the attendant rights. The transaction is subject to confirmatory due diligence and is expected to close in the next eight weeks. The company plans to finance the transaction through a mix of debt and internal accruals. We believe that the post acquisition is in line with Havells objective of deeper into homes and also Lloyd is undergoing a journey similar to Havells of the past and we would combine together our consumer insights to accelerate the growth of Lloyd in future. Ankur, we can have questions now.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone phone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to only use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Thanks for the opportunity. Firstly, just to understand this acquisition a bit better, could you explain to us in terms of the various products that Lloyd Consumer operates in the market, which are the ones do we intend to retain, are we going to go with continue with televisions, refrigerators, washing machines, etc., or the focus is going to be only cooling products?



Havells Limited
February 20, 2017

Anil Rai Gupta: The primary product of Lloyd has been in the past the cooling products, around 70% of the business comes from this, but just like Havells they are also trying to use the brand and distribution channel to get deeper into that consumer durables and over the last few years they have added for the categories like television, washing machines, refrigerator is not really an entry but maybe in the future that will be a larger entry also. Yes, the intention is to utilize the brand and the channel of Lloyd for a larger product portfolio of consumer durables.

Venugopal Garre: Okay Sir. Secondly, if I were to sort of understand, if I look at the consumer durable business compared to your existing business the industry margins are relatively lower. Now what would you ascribe that? Number two is for to bring up Lloyd's margin to at least industry levels, what are the business model tweaks that you would probably intend to do and would that require any restructuring projects for example in the initial phase?

Anil Rai Gupta: First of all the question is whether consumer durable industry structurally makes lesser margins in the electrical industry we do not believe so, in fact Havells makes higher margins in the average of the electrical industry. So if electrical industry earns low margin then Havells. This is in line with the consumer durable margins of the industry also. I would not say higher but at least they are in line with the electrical industry margin. Structurally most of the competitors in the consumer durable industry make double-digit margins. We believe that Lloyd has focused on the consumer durable business on the consumer side only in the last 8 to 10 years. They moved out of this business sometime in the 1980s and reentered in this consumer business sometime around 2008-2009, and they have grown very fast in the last 8 to 10 years almost at a CAGR of 40% to 50%. It is always there that in the initial phase of growth their margins are generally lower. There is a higher amount of spending on the advertising and promotion. Once you reach a certain level then you can start taking the advantages of volumes as well as you can go deeper into the consumer, have a better margin from the consumers as well as the distributors. So we believe that they just at the crux where they can make that shift happening in the next few years and that is what the kind of journey which Havells also did since 2007 to 2017, wherein the margins were lower than the industry, then we crossed the hump, now we believe we claim that the margins are higher than the industry average which is something that the journey for Lloyd can also start from here.

Venugopal Garre: Thank you Sir. If I may ask one last question, out of the 1600 Crores broadly is it bulk of it intangibles or lot of it is a physical facility for SMB that you get?

Anil Rai Gupta: There are no manufacturing facilities that we are getting as a part of this transaction. We will continue to source from Lloyd Electric as well as the other partners that we have, but the entire intangibles including research and development, product development, brand, infrastructure, people, distribution channel will be a part of this transaction.

Venugopal Garre: So the 1600 Crores would primarily set as intangible currently whenever the transaction gets over?



Havells Limited
February 20, 2017

- Anil Rai Gupta:** It is a value of the business, yes, but there are no physical manufacturing assets.
- Venugopal Garre:** I think that is clear. Sir thank you so much and all the best on this new acquisition. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants, please limit your questions to two per participant. Thank you. We will take the next question from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** Good after Sir. You indicated that FY2017 proforma revenue for this business could be around 1850 Crores. Now we also understand that this business had been built mainly on lower pricing, higher warranty periods, and dealer incentives. So firstly would be retain all these characteristics and in case we are tweaking any of these, do you think that revenue growth in this business can be as strong as it has been in the past or can even grow at double digits, how are you seeing the growth to pan out from here?
- Anil Rai Gupta:** I have already explained that there is always a journey in a brand and channel, and I think that journey has been covered by Lloyd up to a certain extent and now we will be taking the next step where we can continue to give value to the consumer from the brand, the service network, and the reach of the product available. Hence, we believe that there is no reason that in the future we should be having a same pricing power as the other industry players have, and also we do believe that this is something which can be covered up in the next few years. I believe that the advertising has been quite good and the distribution reach has been very good. You talked about distribution margins, I think this a very much in line with the Havells' philosophy where we keep the dealers and distributors along with the company's growth journey and we believe that in the future also Lloyd's distributors will continue to push the product the way they have been doing in the past.
- Aditya Bhartia:** Okay. Should we expect double digit kind of revenue growth in this business in the next couple of years or you think that there could be a bit of a slowdown before we start picking up?
- Anil Rai Gupta:** We believe that the industry is also going at a double digit growth and definitely we will continue to try and grow in the fast manner the same way the industry is doing as well as maybe try and better that.
- Aditya Bhartia:** Okay. Sir my next question is on the penetration of Lloyd's brand. We understand that the brand is extremely strong in tier II and tier III towns and slightly smaller areas, while Havells appears to be very strong in metro and tier I cities, do you see any synergies out there and is it that this particular acquisition can help Havells to penetrate into smaller towns also and Havells' management looking to strengthen Lloyd presence in metro town?
- Anil Rai Gupta:** Well, one of the reasons for this acquisition is also that we are acquiring a different distribution channel. I would not say that there is a direct synergy in terms of our channel selling a lot of



Havells Limited
February 20, 2017

Lloyd products or a lot of Lloyd channel selling Havells products. I think over a period of time this will converge to some extent, but I think this is one of the biggest strengths of Lloyd wherein they started from the tier II and tier III towns because that is the more difficult part to get an entry into and Havells also has focused in the last 10 or 15 years to get deeper penetration in tier II and tier III towns. Now Lloyd is coming to metro towns, which is the right way to enter and I think this will present a big huge growth opportunity for the Lloyd brand as well. We believe that their strategy has been right and again they are at starting point of another growth opportunity by coming into bigger metro towns. The brand availability and the brand awareness what we have done as a research is pan India. It is not something that they have focused on tier II and tier III towns or localized advertising. They have focused more on nationalized advertising, which means the brand awareness is pan India and hence all you have to work was the expansion of distribution in newer areas.

Moderator: Thank you. We will take the next question from the line of Ashutosh Narkar from HSBC. Please go ahead. As there is no response, we move to the next question from Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Thanks for taking my questions. I just wanted to get your thoughts on this Lloyd's strategy, in the past had been focusing a lot of growth over profitability and which I know you to some extent explained and also it has been more an economy brand versus Havells is a more premium brand whereas our focus has been more on maintaining or improving the margins. It would be great that if you can share your thoughts how do you gel two ideologies because Lloyd seems to be much more mid tier and economy brand per se?

Anil Rai Gupta: On the first part whether you say growth versus profitability, the mindset in Havells has always been growth and profitability, so we do not see this or that in that, and in fact in the last 10 years we have grown faster than the industry average and our margins have continued to expand. So this is the philosophy which Havells has always believed in and I think this philosophy can be there in Lloyd also in the future, that we will focus both and growth through distribution expansion, to going near to the customer, to give them the best service opportunity as well as because of all these opportunity to consumers there will be focus on expansion of margins as well as much as one can allow or time can allow. So, it is a journey, which will start. It is not something that can be done immediately, but it is something, which can happen over the next couple of years or a few years. We believe that Havells as a brand also is in the mass premium category, so it is not that Havells is a niche brand and it is focusing only on the premium segment. For all product categories that we have, we are in the mass category and maybe Havells over the last two years has moved to the upper end of the mass segment by providing a lot of energy efficiency into the products or investing very high on the manufacturing infrastructure or on R&D. I think this is the journey which we believe Lloyd can also take wherein they are also in the mass category. They might be in the mid part of the mass category. They are not in the local category and they are not in the niche category as well. They are in the mass premium category and they can also start the journey of moving from the mid tier to the upper tier. Again, it will



Havells Limited
February 20, 2017

require investments in R&D, in product technology, branding, distribution reach, and service availability. So, all these things we put together, we believe that this is something which Lloyd has the potential. With all the ingredients already there they can start moving towards that journey.

Gunjan Prithyani: Okay. Just an extension of this when I look at the tiers in the industry and just looking at their residential AC segment margins they are anywhere between 9% and 13% versus Lloyd being at 6%, so there has clearly been higher dealer incentives or aggressive spend. I just want to get some sense from you how many years you think it will take for you to bridge this gap to the peer set because Lloyd is at a discount in terms of margin to the peers as well in the industry?

Anil Rai Gupta: Yes, this is the opportunity that we see and we have an opportunity to move upwards. Right now, it is too early to say that how many years it will take. We need to get into the business. We need to close the transaction and we also might take some more time. I think it is something, which Havells has also gone through the journey. It is not something that wherein we come in to build the trust with the consumer and then able to make them believe that this is something, which Lloyd can give to them. It is again as a journey, so I cannot give a number of years to this at this present moment.

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

Pulkit Patni: Thanks a lot for taking my question. This is related to the previous question. I just wanted to understand given that we are such a reputed and recognized brand which has been built over the year what would have stopped us to do something like this and given the fact that we are not buying the manufacturing facility, buying a business relative to building it on your own, what difference do you think would this basically add to the overall transaction, if you could just highlight that will be very useful?

Anil Rai Gupta: Very good question, thank you and I think this is something which we have been toying with this idea over the last five or six years. Absolutely you are right. The strength of the business does not lie in the manufacturing. If you see the value of Havells today also comes from the brand, the technology, the distribution, the service, and the trust that the customer has built over the brand of Havells over so many years. I think the same thing is available in the Lloyd brand as well. We believe that we have always maintained in the past many years of our conversations with you all as well that Havells is a brand distribution-oriented company and any acquisition that we do will be focused on brand and distribution. Anything, which we can build organically, we would continue to do so. We have done it in the past in many product categories like fans, lighting, appliances where we believe that we can use our existing channel to expand the products, where we believe that we can have the brand bring in those product categories. Now when you do research of consumer durables and whether products can ride on the Havells brand on that, that is questionable, but even if you were to have surmounted that problem the other major issue would



Havells Limited
February 20, 2017

have been the creation of a completely new channel, which is the consumer durable channel. Today Lloyd is available at 10,000 touch points, which is a huge availability of distribution reach and I think to create to build something like that and to create a trust amongst the distribution channel would have taken many, many years. This is precisely the reason why companies do acquisitions and we believe that this is a great platform for us to grow, but this platform had to be acquired. This would not have been easy to replicate this platform in a short period of time.

Pulkit Patni: Understood Sir. Just related to that, given that we have got now two sort of parallel channels what would be the overlap in terms of products, which can be cross-sold across both the channels, is there some plan to do something like that in future?

Anil Rai Gupta: Yes, I think this we will develop over a period time. There will be some overlap in terms of electrical consumer durables and consumer durables, but I would not go too much into that and this should not be taken as a huge amount of synergy. We will continue to see some opportunities and take advantages in that in terms of the consumer durables at the Lloyd channel or air coolers at the Lloyd channel, but these are I would say smaller synergies, which we can get out of it. I think the bigger game is expansion of the Lloyd brand itself introduced this and increasing market shares as well as margins.

Pulkit Patni: Sure Sir. That is it from my side. Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Vishwas Katela from HDFC Life Insurance. Please go ahead.

Vishwas Katela: Good morning Sir. I just wanted to know will you continue with Lloyd's brand only under the new channel which we are acquiring or your thought process is to again have a dual-brand strategy here, maybe a premium Havells brand and Lloyd's brand or will it remain the same one Lloyd's brand?

Anil Rai Gupta: Absolutely. I think we will continue with the Lloyd brand. It has built its strength over the last few decades. It has resurfaced in the last decade or so, but it has been around for the last four or five decades. Even the older consumers remember this as a brand. There has been a huge investment in this brand over the last few years as well. There is no point in thinking of changing the brand to Havells. Yes, it will be from the house of Havells, which will further give trust and confidence not only to the distribution channel but also to the consumer. Whether you talk about premiumization by bringing the Havells brand, there could be a strategy like that, but we believe that there is a lot of potential in Lloyd brand to be nurtured to come up to that level in the next few years. We believe this acquisition provides us that potential.

Vishwas Katela: Okay. My second question is on the manufacturing side. Will you over a period of time shift to maybe I do not know if you have answered I am sorry I missed it will you...



Havells Limited
February 20, 2017

Anil Rai Gupta: No, we will continue to evaluate make or buy. As a company, we have always believed that Havells would like to have some control in the manufacturing part. Yes, in the future we will evaluate that, but at this present moment we have good sourcing arrangements from the existing parent as well as other players as well.

Moderator: Thank you. We will take the next question from the line of Mayur Patel from DSP Blackrock. Please go ahead.

Mayur Patel: I just had one question. You have spoken a lot on this aspect, but Havells being a premium brand and Lloyd strategy as mentioned earlier by one of the gentlemen that is to have more volume-driven strategy with slightly lower on the margin side, are you going to keep the current Lloyd strategy in place or there is an intention to make it go the premiumization path even if you maintain the Lloyd brand?

Anil Rai Gupta: Yes, I think I have already answered this that the philosophy of profit is a mindset. It is nothing to do with just the industry. As you can very well see that there can be various players in the industry who can earn lower margins or higher margins than the industry average. We have a different mindset. We believe that when it comes into the umbrella of Havells, we will try and put in the mindset of growth and profitability rather than growth versus profitability, and this is what we believe we have done it in the past. We believe that there is no conflict in that and I think we will be able to prove that in Lloyd as well.

Moderator: Thank you. We will take the next question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Congratulations on the acquisition. Sir, just one question, what we have observe is Lloyd's has no presence in modern retail perhaps strategy for them historically so how do we see that shifting going forward?

Anil Rai Gupta: You say that they have not been there in the modern retail, I think over a period of time again this is a great potential for the brand to expand into channels not only as someone said this regard metros but into new channels like modern retail or even online to that extent, and I think even in Havells we are seeing that we are continuing to build new channels for growth. Once the product the brand and the trust is there one can evaluate more and more channels in the future. We are developing good relationships with the modern retail. Even Lloyd has started that journey, but I think we can move faster on that.

Rajesh Gupta: I think they are present in a lot of retail channels. It could happen that as you said their strategy has been focused on first tier II, tier III and then moving to metro, so maybe you would not have experienced that, but I think as Anil mentioned as a brand grow I think we have to take up every channel. We cannot be excluding the any consumer or any excess to the consumer.



Havells Limited
February 20, 2017

Atul Mehra: Right. Secondly one thing we have perhaps seen in the past is Lloyd was regularly in the business of giving a very extended warranties on their products, so do we see any kind of risks coming about from those extended warranties in the past?

Anil Rai Gupta: I think whatever we have checked it is generally in line with the industry, there will be some tactical schemes and something, but generally it is in line with the industry.

Atul Mehra: Right great Sir. Wish you all the best and congratulations once again.

Moderator: Thank you. We will take the next question from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: Thanks for the opportunity. Could you kind of a layout in terms of investment that you would like to do both from the P&L side and the balance sheet into this business over the next one to three years, maybe including creating your own manufacturing capacities over a period of time?

Anil Rai Gupta: We would like to evaluate this once the complete acquisition is done and then we can talk more about it.

Inderjeet Singh: Okay. Is there a commitment in the transaction that for a certain period of time we would buy only from Lloyd's manufacturing facilities?

Anil Rai Gupta: No. In fact it is the other way around. We have taken some commitment from them that they would continue to supply to the new business and there will be a sort of good relationship with the parent as well. It is not that we have to buy, but as long as they are competitive and good quality products are seen from them, there is a good relationship that we will continue to source from them.

Inderjeet Singh: Sure. My second question is on this 10,000 touch points. Would you just to want to kind of give some context around it as if some of the larger peers, how large their touch points is at this point of time and in your sense, in your analysis how sticky these touch points are so if tomorrow Havells kind of moves to a strategy where they start to focus on profitability, maybe lower working capital given to the channel, do you think that this the relationship will sustain?

Anil Rai Gupta: I think one of the biggest advantages that we have seen in this acquisition is that Lloyd maintains a healthy relationship with the dealers and distributors, which is again very much in line with what we have. It is not a very transactional relationship. It is more of emotional relationship, which is the biggest reason for stickiness, otherwise the margins and all these are very transactional and very short-term in nature, anyone can come in and increase the margins and take away market shares which it does not happen in the case and that is the thing that we have seen in the case of Lloyd also. We believe that there will be stickiness. It is not that we would reduce margins for the distribution or anything. The way we handle our distributors and dealers,



Havells Limited
February 20, 2017

we believe the same philosophy can be brought in there. Our stickiness also in Havells has been built around good relationships with the trade channels and we just have to nurture those relationships in the case of Lloyd. We do not have to reinvent the wheel.

Inderjeet Singh: Okay, thanks a lot. If I can squeeze just one, is there a likelihood of we trying to at least get the Lloyd products through our galaxy chain of stores?

Anil Rai Gupta: I think we will evaluate this. It all depends upon the availability of Lloyd channel in and around that area. We will have to continue to evaluate these opportunities in the future.

Inderjeet Singh: Sure, thank you.

Moderator: Thank you. We will take the next question from the line of Sachin Trivedi from UTI Mutual Fund. Please go ahead.

Sachin Trivedi: Congratulations on this acquisition. Sir just one question, as far as our observation goes the consolidated entity of Lloyd's, when we look at their operating cash flow it has been quite weak and this is for the last several years as far as the consumer business which is the larger part of the portion, can you comment that how has been the consumer business operating cash flow profile?

Anil Rai Gupta: I think with the cardboard financials we have been provided I think it is in line with the EBITDA profile they have so it will not be possible for me to comment upon the consolidate numbers, but as far as the standalone is concerned I think the cash flows are in line with the operating margins. They are not significantly weaker in terms of the margin profile they have.

Sachin Trivedi: On a metric since you are saying that it is largely in line with EBITDA, so how will be the conversion of EBITDA to see it kind of be for our comfort?

Rajesh Gupta: You will appreciate that will depend upon how we finance the transaction. Again, we cannot comment upon how it was structured and the erstwhile Lloyd as a corporate, but we do not see it as a very high capital intensive either in terms of Capex or a high working capital intensive business, if I think that is the question. The cash flows I think are pretty much there. I think the business has been run on a slightly cash-and-carry basis as well. I think it is again in line with the industry. If you look at other competitors and peers in the industry, they are largely cash flow sort of positive as well as low working capital and low capital. I think this business is pretty much in line with that, except maybe for the margins.

Sachin Trivedi: Just one last question, terms of trade in the past and in future how will you say the inventory level because when we look at that entity where 70% of their business is consumer and it has a very high level of inventory as well as receivable? Is it that the terms of credit with the dealer as the same as industry level or the erstwhile entity was giving better terms to the dealer and in future you are going to take some steps to correct it?



Havells Limited
February 20, 2017

- Rajesh Gupta:** Look I cannot comment upon the consolidated entity because we have not reviewed the same. As I said that their working capital is pretty much in line with the industry and I think we will like to leave it here.
- Sachin Trivedi:** Okay. I really appreciate. Thanks.
- Moderator:** Thank you. We will take the next question from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.
- Amar Kalkundrikar:** 30% of the business is non-air conditioner their market share and scale is nowhere near what they have in air-conditioner, so what are your thought on this part of the business?
- Anil Rai Gupta:** I think our thoughts are generally this is a great opportunity for brand like Lloyd and they have just started these new product categories in the last two or three years. I have already mentioned that this is the strategy, which Havells also started. Initially anybody would have said our market shares are very low, but over a period of time we have focused on those businesses and have been able to increase market shares in product categories that have been new initially. I think we are quite excited by this fact that this channel can be used and expanded very well.
- Amar Kalkundrikar:** Okay, thank you.
- Moderator:** Thank you. We will take the next question from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** I just want to reiterate on the warranty part. Lloyd's use to give a five-year plus kind of complete warranty. All the servicing cost of warranty has been fully provided on the P&L or there will be additional cost, which can come in the future?
- Rajesh Gupta:** No. I think we believe it has been fully provided, obviously we are also going to the due diligence, but we do not believe there are any variants from what has been committed.
- Jignesh Kamani:** Can you show some color on the working capital days, inventory days, receivable days, and debtor days right now on the consumer part of the business?
- Anil Rai Gupta:** The deal is still going through the process. We will like to discuss this only after it is closed.
- Jignesh Kamani:** Okay. Since right now Lloyd is manufacturing in-house and post that we will be buying from that, so we will be getting more credit and working capital cycle will come down in the future?
- Rajesh Gupta:** No. In the carved out, we are already achieving the manufacturing margins when we do source from the parent company. Again, I think that has been on a very arms length and a fair basis, so we do not see any sort of a discussion on that. They have been supplying. They are OEM to other leading companies as well. I think those are the similar terms they will extend to us as well. As



Havells Limited
February 20, 2017

Anil mentioned we would continue to have a very warm relationship with the parent company and I think we continue to seek their support in building up Lloyd brand.

Jignesh Kamani: And what is the capital employed of this carved out entity?

Rajesh Gupta: Again, as I said I think right now it is a composite one so we will please discuss this after we have closed the transaction.

Jignesh Kamani: Okay, thanks a lot.

Moderator: Thank you. We will take the next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thank you for the opportunity Sir. Congratulations for the acquisition. What I wanted to understand Sir maybe a little theoretical question, if I look at the existing business it is more of the electrical as compared to this appliance and now we are venturing into the consumer durables, wide goods part of it, as a nature of the industry what is the difference between the two and I am just curious to know because even Havells' now size is pretty large in the existing product, how would we deal with the wide goods? Would we have new people actually at the senior level taking care of the business for the wide goods or how would the management distribute, I am just curious to know that?

Anil Rai Gupta: Well, I think you have seen in the last few years that Havells has been successful in adding businesses and managing them through a very strong set of people. If you see our existing businesses like switchgears, cables, lighting and consumer durables, electrical consumer durables, we have done exceedingly well in taking the best people from the industry. We are managing the businesses independently. We use the common brand and the distribution channel, but primarily the sales and marketing and even the manufacturing are driven by the SBUs themselves in a very professional manner. I think in every business if you see we have grown market shares, we have maintained leadership positions or we are amongst the top three businesses, even new businesses that we have added in the last 5 to 10 years we have taken very strong market share position in those businesses. So, it is a clear indication how we have been able to manage different businesses. The advantage with this acquisition is that it comes with a very strong team already. We do not have to rebuild a team right from the scratch and that is why someone asked this question why we thought of acquiring a company rather than starting it from scratch, I think the strength of the distribution channel and the strength of the team is one of the biggest attractions in this business. I think as our other four businesses this will be another business which will be managed independently and we will have a completely independent way of working style based on the philosophy of brand, distribution, the corporate philosophy will be similar. The good thing again in this acquisition is that we do not have to tinker a whole lot from the philosophy point of view that it does not come with a very different distribution policy or a



Havells Limited
February 20, 2017

different distribution style. It is very much in line with our thinking. Philosophically if you are asking this question or theoretically as you are saying this is my answer to that.

Achal Lohade: Understood. Secondly in terms of the margins, what I was trying to understand is now as you said manufacturing margins would be obviously kept by the parent, what sort of margin profile if one could kind of look at next one to three-year point of view?

Anil Rai Gupta: What we have seen in the cardboard connect financial is that this is the margin that we will retain unless we change something and there should be an improvement from here as I have already said over the next few years to come very close to the industry level.

Moderator: Thank you. We will take the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Congrats on completing the acquisition. I just had couple of questions, firstly on how should we look at the next one or two years which will be the first couple of years when you have this brand? Will it be that because you need to make investments in the business plus you might also would be wanting to take some correct changes in the distribution chain, is there a possibility that the top-line actually shrinks a little bit initially as you reset and also on margins are they low hanging possibilities to take up margins or do we think again margins can take a little bit of a breather before it actually moves up again as you have implement your strategies?

Anil Rai Gupta: Yes, I think on the volume front we believe that it will be continuation of the same. We do not see that there should be any major disruption as we take over the business. As I said the philosophies have been similar so we do not see a major correction happening or a reset of the business as we acquired. On the margins front as well, we believe that this is at the right level and whatever growth they have achieved in the past and we will try it and inculcate profitability mindset into the business over the next few years. This is something which is more of a journey as I have already said, again nobody has a magic wand that this can completely changed in one year or something, but definitely it is a journey which we will start from here. I do not see major regions why it should get into a reset kind of a mode as soon as we takeover.

Arnab Mitra: Sure Sir, basically what you are saying is this does not look like a disruption neither on the margin or the top-line front as you take over the business in the first one or two years.

Anil Rai Gupta: That is correct.

Arnab Mitra: Sure. And my last question was on the fact that when companies grow so fast at 40%, 50% CAGR, we have normally seen typically inventory levels at the retail or distributor level is high. Based on whatever you have seen till now do you believe innovatory levels in the channel are quite healthy right now and will there be any requirement to change on that front?



Havells Limited
February 20, 2017

- Anil Rai Gupta:** I think whatever checks we have done till now have been fairly satisfactory. There will be a continuation of the due diligence in the next six to eight weeks as well, but the initial reports are strong.
- Arnab Mitra:** And on the distribution model, is it distributor to these 10000 touch points or what is the model of distribution here versus your electrical business?
- Anil Rai Gupta:** I think it is very similar to what we have. We have a combination of distributors as well as direct touch points and these 10000 touch points include the retail outlets, which are catered to by the distributors as well, but there are a large number of direct outlets as well.
- Arnab Mitra:** Sure, thanks. That is it from my side and all the best.
- Moderator:** Thank you. We will take the next question from the line of Chokalingam N from Deutsche Bank. Please go ahead.
- Chokalingam N:** Congrats on the acquisition. I do not know if you had already commented on this, I joined a bit late, but any thoughts on your capital allocation now changes to dividend policy or anything given that there is a fairly decent size acquisition and will now probably will have to raise some sort of debt, how should one think about that?
- Anil Rai Gupta:** We have already mentioned that we are reviewing how to fund this acquisition. There could be a mix of some cash from the internal cash flow pile that we have as well as maybe some debt, but we do not see any change in policy because of that and even the dividend policy we believe that the cash flows in the next few years should remain strong and we can continue with the similar dividend policy.
- Chokalingam N:** Okay. Are there any further M&A opportunity that you will be evaluating or continuing to evaluate or there is a kind of consolidation phase for the next one to two years or how should one pickup on that?
- Anil Rai Gupta:** I think we are always open for opportunities, but let us try and think this in.
- Chokalingam N:** Okay. Is it possible to say if there is any non-compete clause as far as the Lloyd Electric in terms of them coming back into the consumer side of it or is there a non-compete thing?
- Rajiv Goel:** There are customary non-compete clauses, which are fairly common to these kinds of transactions, so that will be there.
- Chokalingam N:** Is it 5 years or 10 years?
- Anil Rai Gupta:** No, we would not comment up on that since it is confidential.



Havells Limited
February 20, 2017

- Chokalingam N:** Okay. One last thing if I can. Is it possible to quantify the industry size that you typically highlight in your presentations on each category that you operate, what is the industry size in each of the products that you have?
- Anil Rai Gupta:** We can come back with these details in a later presentation. Right now as we have already mentioned, it is supposed to be a \$15 billion kind of an industry, but I think if you go into deeper into air-conditioners and all that we can take it at some appropriate time.
- Chokalingam N:** Sure, thanks a lot and all the best.
- Moderator:** Thank you. We will take the next question from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Good afternoon Sir, thank you for the opportunity and congrats for the acquisition. I just wanted to reconcile some numbers. In nine months if you look at Lloyd's consumer durable business EBITDA reported it is about 87 Crores and we have highlighted in the press release as 75 Crores, so the difference is it because of the manufacturing margins?
- Rajiv Goel:** Actually we are previewed to how they have arrived at. We are only commenting upon what we have been provided as a standalone financials of this unit. You will appreciate that apart from manufacturing expenses which is obvious one, there are always certain expenses which would not get allocated normally when you do the divisional accounting for the purpose of disclosure, so it could be like that. Yes, obvious one is the manufacturing margin because in the carved out one they have been taken on arms length basis.
- Bhargav Buddhadev:** The reason I am asking is that since it is quietly low because it is close to about 1% whereas if you look at their OEM business there the margins are around 6%, so I just wanted to understand the difference?
- Rajiv Goel:** At least we do not have. We can only comment upon what we have been provided and we are working upon.
- Bhargav Buddhadev:** And sir the underlying 10 Crores EBITDA which you are mentioning about 17 is our share right, so when we buy the business...
- Anil Rai Gupta:** Yes. This is again our own estimate. This is what we believe this business can conjure over the next quarter depending upon the past experience and the run rate. These are not the numbers, which we have been shared with. These are our own estimates of this business.
- Bhargav Buddhadev:** And fair to say this is after the manufacturing mile; this belongs to Havells once it acquires right?
- Anil Rai Gupta:** That is right.



Havells Limited
February 20, 2017

- Bhargav Buddhadev:** Okay. Secondly Sir I just wanted to know is there any synergy which regards to Lloyd's service center that Havells is Brownwood's can also essentially cater to these service centers?
- Rajesh Gupta:** I think this is something we will evaluate after the closure. As Anil said as of now this is more of an independent business because they have their own servicing requirement and we have our own servicing requirement. The people's skill set also could be different; however, there would certain synergies not only in servicing with the other parts of the business, which definitely I think we will evaluate after the closure.
- Bhargav Buddhadev:** And Sir lastly is it possible to quantify some numbers on the sales force strength as well as the service center strength which Lloyd has that would have been also a part of buying this particular brand, number of service centers and sales staff basically?
- Anil Rai Gupta:** Overall number what we have been around 900 odd, so we will not go into the breakup of that right now.
- Bhargav Buddhadev:** And service centers Sir?
- Anil Rai Gupta:** Everything included I am saying on their roll.
- Bhargav Buddhadev:** Okay Sir. Thank you very much.
- Moderator:** Thank you. The next question is from Amar Kedia from Nomura. Please go ahead.
- Amar Kedia:** Congratulations on the acquisition. I have a couple of questions. The first is at the time you close this deal, at least the AC of the business you would be entering into almost at the peak of the summer season. How do you see the transition in terms of the inventory and even the product strategy or anything has to change, do you think you will be able to implement that starting this summer season itself or would most of it to be for the next year?
- Anil Rai Gupta:** As I said, we are buying it more as an ongoing business and I think we have the independent teams who have already thought through whatever strategies are required for the summer season. I do not think we would be disrupting this strategy in any way in the coming season.
- Amar Kedia:** Okay. The second is I know you have already discussed about the margin part, but when I look at Lloyd they are amongst the largest OEM for AC in India and because of that also the ability to maintain a decent margin whatever 6% or 7% in this part of the business has been there, but once they carve out do you think you would be at relatively disadvantageous position as compared to the current arms length number that we have seen in the financials and because of that there might be a need for taking a price hike just to maintain the same level of margin?



Havells Limited
February 20, 2017

- Anil Rai Gupta:** No, we do not believe so. Whatever numbers that we are talking about are based on the basis of their arms length transactions so, we do not believe that we would have to take any major steps to maintain the margins.
- Amar Kedia:** All right, thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Ashish Jain from Morgan Stanley. Please go ahead.
- Ashish Jain:** Thanks for the opportunity. Sir, I just wanted to understand in terms of the margins of Lloyd versus the competition where do you see the biggest difference and what is easy to address, whether it is warranty or advertising expenditure or the dealer margins that Lloyd will be giving today?
- Anil Rai Gupta:** Ashish I think we will be dwelling into this more in detail. As I said, there is a journey for a brand. It is not something very black and white, which can be brought up unlike in other business. Brand distribution businesses are very much I would say dependent upon acceptance of the consumer, the trade channel, and the service channel. I think over a period of time we will try and improve this. If it were so black and white, we could have achieved improvement in the next three months, which does not happen so. If we were to know all these things which lever would increase the margins then it would have been an extremely easy task.
- Ashish Jain:** No Sir. My question is versus competition if I see where do you see Lloyd, the percentage spent for Lloyd is higher, I am asking from that perspective?
- Anil Rai Gupta:** From all points of view whether it is pricing or whether it is cost of service, there are opportunities everywhere, but then it also depends upon the size of the turnover or what kind of network you have. So, it all depends up on that. Again as I said it is not easy to just turnoff or it turn on.
- Ashish Jain:** And Sir secondly what percentage of Lloyd's sales is actually in-house for Lloyd's and how much are they sourcing for third parties themselves?
- Rajesh Gupta:** It keeps fluctuating but we believe it is around one-third captive. I think the numbers can change so, but we believe last year it was around 1one-third captive.
- Ashish Jain:** Okay. Thank you so much Sir.
- Moderator:** Thank you. We will take the next question from the line of Kaushik Pal from Manulife. Please go ahead.
- Kaushik Pal:** Thank you for taking my question. My question is on the possible impending change into the AC market towards inverter ACs. Today obviously when I go into public websites of comparing



Havells Limited
February 20, 2017

products, there is hardly any product mentioned from Havells on inverter, so they might be having it internally, and this may also cause a step change in the kind of pricing that is there for three star ACs in the market. You must have looked at this aspect when finalizing the acquisition. Any comments over there, Lloyd bring a primarily I would assume three star AC player, how would that possibly play out over the next one to two years?

Anil Rai Gupta: I think we have look at that thing as well as there are certain changes which will come in 2018 and 2020 regarding the technology and the star rating of the product. We believe that given what we have seen Lloyd is in a good position to take care of these requirements. They have already have those products in the product range which might be available in the entire distribution channel and then as the consumer demand changes over the next one year and the next few years Lloyd is in a good position to respond to that.

Kaushik Pal: And what about the pricing bit?

Anil Rai Gupta: We believe that pricing for a product is all-dependent upon the cost of the product and what the consumer can pay. We believe that the competition has been in the past responsible that they have passed on whether it is a price reduction or price increase to the consumer. We do not see any major change in the pricing or the costing depending upon the requirements. The way some of the competition has responded is also dependent upon what value you are giving to the consumer. Again, as I said whatever we have seen of Lloyd they are giving the right product. They have also have the inverter ACs as you talked about which have a different pricing and the consumer is paying for that product as well. Going forward in 2018, there will be changes in the star rating system which we believe that the product development teams at Lloyd Havells already taken that into consideration for the next year launches.

Kaushik Pal: Sure, thank you Sir.

Moderator: Thank you. We will take the next question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: I just have one question. Sir would you like to amortize the goodwill over a period of time or you would continue with it?

Rajesh Gupta: I think this is something that needs to be discussed with our auditor. Normally we will do whatever is required under our raise and regulations.

Ankit Babel: Okay Sir, thank you.

Moderator: Thank you. We will take the next question from the line of Ranjit Shivram from Antique Stock Broking. Please go ahead.



Havells Limited
February 20, 2017

- Ranjit Shivram:** Most of my questions have been answered. I just wanted to reiterate if possible there are certain manufacturing units because of the leverage which Lloyd gave the support, but now with the manufacturing unit completely gone do you see a temporary dip in the margins or you have to offset that by higher prices and will that result in loosing of market share just to get some clarity on that?
- Rajesh Gupta:** No. As we said, the manufacturing sourcing for these products will continue because this is the parent company and will continue to support the same. I think we have a good relationship with them. So, we do not see any disruption or any change in the business going forward even after this transaction.
- Ranjit Shivram:** Okay, thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Dharmendra Grover from Cask Capital. Please go ahead.
- Dharmendra Grover:** Thanks for taking the question. You are not disclosing anything on the working capital side that we have taken over from Lloyd. Is there any particular issue on that?
- Rajesh Gupta:** No. I think we are saying that this is subject to the closure; so once the closure happens I think we will share the numbers.
- Dharmendra Grover:** But what is the approximately range that you would have acquired?
- Rajesh Gupta:** Actually the due diligence is going on. Since it is a part of the company I think we need to carve that out and once that happens I think we will disclose that. It is an MOU and we have not entered into the final agreement.
- Dharmendra Grover:** But since we have arrived at a value so I thought that because that is a physical asset and it is much easier to ascribe a value to that.
- Rajesh Gupta:** Whatever relevant asset will come along we will do it at that time. Right now it is in the confidentially clause and we cannot talk about that.
- Dharmendra Grover:** Okay. Secondly this whole distribution and branding was result of a very different management culture at Lloyd and this was being driven by a key set of people. Are those key sets of people coming along in this transaction and how would you retain those people post the transaction?
- Anil Rai Gupta:** As of now we understand that the entire team is coming as a part of this transaction and we will continue to retain those people the same way we are retaining our existing set of people.
- Dharmendra Grover:** This whole business was created by those people so is there any kind of an extra cost that will go to them to rotate, is it a part of this 1600 Crores or is it something over and above that?



Havells Limited
February 20, 2017

Anil Rai Gupta: Businesses are created by companies and brands and not just by one set of people. You can very well understand these kinds of business at least are not vulnerable to one or two kinds of people, but as I said we are taking over a very strong team, which has been working in this business for some time. We believe that we will be able to retain them in the business, we will nurture them, we will show them the future growth possibilities the way we done it in Havells, and we believe that they are also quite excited at this opportunity.

Dharmendra Grover: And my last question is between Sylvania and this acquisition what are the lessons you have that you think you will do and you will not do?

Anil Rai Gupta: That is a longer discussion. I think we will not take this up on this conference call.

Dharmendra Grover: Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. We would like to thank the management for their valuable time. On behalf of Motilal Oswal Securities, that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.