



“Havells Limited Q2 FY 2018 Earnings  
Conference Call”

October 23, 2017



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**Moderator:** Ladies and gentlemen good day and welcome to the Havells Q2 FY2018 Earnings Conference Call hosted by IDFC 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 the operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Miss. Bhoomika Nair from IDFC Securities Limited. Thank you and over to you Madam!

**Bhoomika Nair:** Thanks Lizaan. Good evening everyone. Welcome to the Q2 FY 2018 earnings call of Havells India. The management today is being represented by Mr. Anil Rai Gupta – Chairman and Managing Director, Mr. Rajesh Kumar Gupta – Director (Finance) & Group CFO and Mr. Rajiv Goel – Executive Director. I now like to hand over the call to Mr. Anil Rai Gupta for his initial remarks post which we will open up the floor for Q&A. Over to you Sir!

**Anil Rai Gupta:** Thank you Bhoomika. Good afternoon everyone. Thanks for joining the call. You would have received the investor communication circulated earlier. General GST continues to disrupt the demand and in particular, the electrical products attracting higher GST rate thereby creating a perception of being expensive than earlier. As you all know that the GST rate in electrical product has come as 28%. In most of the product categories the total GST earlier used to be around 18%, the total excise plus VAT. The trade channel has been delaying restocking pending GST stabilization and workup in consumer demand. We have successfully transitioned to GST module with credit uploaded for the entire sales infrastructure including dealers and distributors. The reconciliation with vendors is under process and initial review suggests marginal variances for credit adjustment. Margins for the quarter have been supported by a favourable commodity prices on inventory in cables, decline in investment cost because we wanted to control the cost after the first quarter and gains on sale of bonds. As far as GST plan we have realigned our discount structure and reduced MRP in most of our product category. The building segment is subdued with construction slow down, lighting is benefiting from shift to LED and consumer appliances and Lloyd are growing steadily. We are cautiously positive on growth going forward. We would now respond to your queries ladies and gentleman.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

**Arnab Mitra:** Congratulations on good earnings growth, just first question is on cables, you have had an exceptionally good margin this quarter which you said is partially because of the inventory gain of the lower cost inventory, so do you see any kind of sustainability of such high margins and how should one look at margins in the cable business going ahead and also if you could kind of quantify price and volume trends in this quarter in the cable business?



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**Anil Rai Gupta:** I think these margins would not be sustainable as we said it is the one-off effect, but overall if we look at cables' margins, cables' margins were affected during the last one-year or so because of structurally low demand in this scenario. I think generally speaking everybody believes that at those levels underground cables business is not a very profitable business and we may see some amount of sacrifice of volumes for margins. So there will be better margins than before, but obviously this includes one-time benefits as well.

**Arnab Mitra:** Has there been further price increases in the cables business as we speak because there has been a further increase in some of the input cost?

**Anil Rai Gupta:** Yes, it is reviewed on a very regular basis. I think there have already been a couple of price increases in this particular quarter. We are reviewing. The markets are still very choppy at this moment for commodity prices. So we are waiting and watching for some time.

**Arnab Mitra:** My last question is on Lloyd, you mention in a release that the growth has been impacted by general softness in market demand, so because we do not have a comparable base if you could help us understand year-on-year how the growth would have been and also whether the 7% margin in a non-peak kind of quarter does it mean that you have already been able to operationally take up margins in the business?

**Anil Rai Gupta:** I think overall if you see that you asked this question, the growth is 11% if we take like-to-like adjusting for all schemes and excise duties and CVDs over the past. So, the growth is like-to-like 11%. There was a little bit of cost effect in this quarter in terms of cost overall, but generally speaking this is a lower quarter in terms of sales both second and third quarter and hence margins get exhausted over a period of time, so overall there will be improvement in margins in Lloyd, but may be this was one-off because of control in cost as well.

**Arnab Mitra:** Thanks, that is it from my side.

**Moderator:** Thank you. We will take the next question from the line of Aditya Bhartia from Investec. Please go ahead.

**Aditya Bhartia:** Good afternoon Sir. Sir are you still seeing demands remaining sluggish on account of GST transition or are we now finally seeing restocking picking up pace and would you expect some part of sales lost in H1 to be recouped in H2?

**Anil Rai Gupta:** I believe that whatever restocking which we expected to happen in the second quarter has not taken place and may be it may not happen at all because it might be a new normal for the trade as well. They might be more efficiency built into the system in future, people expecting higher ROIs especially given these market condition, so I believe second half will definitely be better because first quarter was impacted by significant destocking in June, but not necessarily that we will see restocking happen back to normal level.



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**Aditya Bhartia:** Sir, how you are seeing unorganized players managing the GST transition or these market shares is moving between organized and unorganized players across categories especially in wires?

**Anil Rai Gupta:** Very early to say. I would say that we would hold on for some time. Definitely here this high GST rate of 28% is not a very conducive rate for the consumer and hence there is more incentive for unorganized manufactures that find loopholes and ways and means to continue to do some business in unorganized manner. So we believe either the consumer will get adjusted to these high rates or the government may reduce some rates, for example in LED the rates are lower and the market has done very well. So we believe that overall organized trade will do better but the GST rate should come down to reasonable level.

**Aditya Bhartia:** Lastly Sir how is the festive season being for Havells especially on the consumer durable side?

**Anil Rai Gupta:** I would say mixed response. We have grown by 11% both in consumer durables and Lloyd, but kind of festive uptake that we had expected especially after a lot of destocking which happened in June, we have not seen that and I think it is probably attributed to the initial adjustments with still the consumer as well as the traders making towards the new GST rate.

**Aditya Bhartia:** Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

**Shrinidhi Karlekar:** Thanks for the opportunity and congratulations on a very good profitability performance. Sir this Lloyd growth of 11% that you said, would it be possible to make any comment on Lloyd market share during Q2 versus Q1 or like either growth comparable to industry or company could have gain or lost market share?

**Anil Rai Gupta:** Particular quarter is mainly LED panels as against air conditioning and hence we are very small player in this LED so it does not necessitate any discussion of the shares at this point.

**Shrinidhi Karlekar:** Okay. Fair enough and Sir, if you see Havells ex-Lloyd growth has been 6.7% as stated in the press release and it involves some pricing increase and some sequential restocking as well I guess, so underlying sales could be very low single digit so I just wanted to understand is the demand environment is so weak and it is so weak across the markets?

**Anil Rai Gupta:** First of all, except in wires and cables where there is commodity price increase, has not experienced any price increase in the other product division. Secondly yes, there is structurally a lower demand because of initial GST apprehension in the trade as well as a low demand in the construction industry.

**Shrinidhi Karlekar:** Sir, across the industrial as well as institutional and domestic, across three markets we are seeing weakness is it?



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- Anil Rai Gupta:** That is right.
- Shrinidhi Karlekar:** Okay, that is it from my side, thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from CLSA. Please go ahead.
- Chirag Shah:** Thank you for taking my question. Sir, very quickly can you please highlight on the steps that you are taking to improve margins in Lloyds and whether we have taken any price corrections in the last couple of months, also just staying on Lloyds if you can also elaborate on your plans to increase the distribution network and product offering at Lloyds and lastly there has been surprises with regard to working capital at Lloyds in the last few months?
- Anil Rai Gupta:** As far as your first question goes, there are no price increases taken in Lloyds. Initial distribution adjustment with policies and the schemes and pricing. Coming to Havells, we generally expect transparent in the single policy all across India. Those kinds of changes have helped improve the margin a little bit, but there have been no price increases. Secondly, there were no negative surprises in terms of working capital.
- Chirag Shah:** If you can just highlight the steps that you are taking to improve margins in Lloyds, what are the steps that we are taking?
- Anil Rai Gupta:** As I said, there are integration opportunities available. Warehouses are getting integrated, supply chains are integrated, and the back-end functions are getting integrated, so there will be opportunities to the full cost to take the margins upwards. As far as product expansion goes, we continue to remain in air conditioning, we already have balance and we will continue to develop these product categories for the next year.
- Chirag Shah:** One last question if I may ask, there has been a significant increase in creditor days for H1, is there any one-off year?
- Anil Rai Gupta:** No, it is because why it has gotten added to this, and this is how working capital increased.
- Chirag Shah:** No, I understand that, but if you basically look at the total change in creditor days, it is quite sharp, so I was just wondering whether there is anything besides Lloyd here?
- Anil Rai Gupta:** Which is largely the wishing some enhancement of financing also, which we have done both at Havells and in Lloyd. I think this may be distracting the price status.
- Chirag Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nilesh Bhaiya from Macquarie. Please go ahead.



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- Nilesh Bhaiya:** This is Inder here from Macquarie. Thanks for the opportunity. My first question is on this GST, if you look at some of the key segments like Fans, the GST rate is fairly high, is it actually working the other way round the unorganized is finding better volume growth in the market at this point of time because of the steep increase in tax rates?
- Anil Rai Gupta:** I do not think that this is happening as of now but if it continues to remain long-term, there will be ways and means found by the unorganized sector and this is something which we are vary of and we do expect and we are getting indications from the press on a daily basis that there might be rate revisions in the future.
- Nilesh Bhaiya:** Secondly can you share the numbers reading how much was the commodity or inventory gain in this quarter in the cables business?
- Anil Rai Gupta:** We are not specifically getting into that, but we have essentially a couple of percentage points in cable segment as a whole which we believe may not be sustainable going forward.
- Nilesh Bhaiya:** Okay and lastly if I look at the Lloyd's business on a sequential basis, there is very sharp increase in capital deployed can you just run us into what exactly is the breakup of that?
- Anil Rai Gupta:** I do not think so there is any increase in the capital deployment there, maybe there is some readjustment, reallocation, but capital side I think we have just mentioned that there are no negative surprises on capital deployment in Lloyd.
- Nilesh Bhaiya:** Okay Sir thanks a lot.
- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Sir, thanks for taking my question. First question is the followup on the margins now. This quarter has been of course aided by lower ad spends and inventory gains in the cable segment, but if we were to hypothetically adjust these, the margin seemed to be more closer to the normalized 13%, 13.5% levels, so is it fair to assume that the margin outlook for future will stay at these levels because these one-offs are only for this quarter?
- Anil Rai Gupta:** Basically if you have noticed that of course demonetization had a hit into the market while we were looking come back to normal, it was hit by commodity prices in final quarter, fourth quarter and the first quarter. I think we believe that we should be coming back to normal levels in coming quarter.
- Gunjan Prithyani:** Sorry Sir your voice is breaking.
- Anil Rai Gupta:** I said before demonetization we used to have what margin that level, they had to come off a bit after demonetization because the schemes are strong and reduced prices when the quantity price



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will increase. I believe that you know given now things have stabilized we should be coming back to normal levels, which used to be there before demonetization.

**Gunjan Prithyani:** Sir, in the range of what 13.5% or 14% levels?

**Anil Rai Gupta:** More specific, but yes this is somewhere around those numbers, which we used to have. It also depends on the products that we have.

**Gunjan Prithyani:** Second thing was you have clubbed the other which is the EESL business and the lighting business, but would you be able to provide some sense on and how big is EESL business now and how was the margin profile different from the lighting segment?

**Anil Rai Gupta:** It is not very different; it is lower than the overall lighting segment. Margins would be in the range of 19% to 20% in the EESL, but the value is around 45 crores in this quarter.

**Gunjan Prithyani:** Last question on this consumer electrical segment now there has also been a contribution margin improvement in this segment and there have not been any price increases this quarter, so what has led to the margin improvement then should we see this as a sustainable kind of margin?

**Anil Rai Gupta:** Yes, these are sustainable margins. If you see that in some of the product category like appliances and all we had taken a hit on margins. Things have come back to normal levels in those product categories, so we believe that these are sustainable.

**Gunjan Prithyani:** Ok. Fair enough. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Charanjeet Singh from B&K Securities. Please go ahead.

**Charanjeet Singh:** Sir, thanks for the opportunity. Sir, you had mentioned that the restocking with the dealers has not happened to the extent what we were expecting, so what are the concerns which dealers have and do you think it is just the pricing or are there any other issues which are leading to this restocking being at a much lower level and how much lower it is versus your initial expectations?

**Anil Rai Gupta:** First of all we cannot put a number to it because it is impossible to get an idea of the total stocks in the channel. The other thing is the concerns which they have is overall demand scenario and the high GST rate is impacting the sentiments of the consumer. Hence they also feel that probably they were keeping high levels of inventory for servicing the customer and the companies are in a better position to service them even at the lower levels of inventory so we believe the overall efficiency is getting built into the system.

**Charanjeet Singh:** Sir, if you look at the overall market growth from the second half perspective as things would be now getting in more normalization mode, so how do you see that the market growth rate can look going forward?



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**Anil Rai Gupta:** Very difficult to again comment right now, since we are still at a very fluid kind of stage, GST has just happen for about three, three and a half months now. People are coming back to their normalized pattern so I would say that let us wait for some more time to get out a complete hang on it.

**Charanjeet Singh:** Sir, if I look at the consumer durable segment now we have been consistently delivering more than 300 Crores of revenue every quarter and do we see that this kind of run rate being maintained or growth from here in this segment?

**Anil Rai Gupta:** Yes, I think it is quite about consumer durable segment there is seasonality in this business, there is no doubt, fans operate in a different season and the water heaters operate in a different season. So there is seasonality but yes overall growth we are quite bullish about it.

**Charanjeet Singh:** Thank you Sir. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

**Renu Baid:** Hi good evening Sir. Sir my first question is the market outlook despite that if we see somewhere in ECD we have managed growth, so if you can highlights which pockets of the market are contributing to growth are we seeing the rural segment growing at a much faster pace or the tier 2 and tier 3 towns and when do you see the volume decline that we are seeing in the wires, cables, and switch gears to reverse in the next six to nine months or probably it might take a little more longer?

**Anil Rai Gupta:** It is difficult to say. This is very directly related to the overall sentiments in the construction industry.

**Renu Baid:** But regionally are we seeing any divergence, any particular pocket where we are seeing this difference or which segments are probably contributing to faster growth compared to the others?

**Anil Rai Gupta:** There is no clear distinction between the segments. Lighting is definitely faster growth because of changing of conventional to LED lighting as well. Consumer durables are construction related, but also refurbishment related, so there the impact is not so much, which are purely based on capex and construction. So everything behaves differently. Again it is very difficult to point out exactly when things will completely turn out. We try and gain deeper penetration into the market at all points of time and your question about whether it is rural demand or again our major business comes from metros, mini metros and tier 2 towns and we do not see any significant difference in growth pattern in any of this.

**Renu Baid:** Sir I missed the initial concall, so just wanted to check you mentioned that you have actually reduced the end prices of the products to consumers, but at the same time we would have taken commodity related price hikes on key category products, which has helped us the gross margin





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side, so net-net what has been the impact both.... what would have been the absolute price hike that would have taken to offset the commodity prices?

**Anil Rai Gupta:** Mostly it is in cables and wires and primarily I think wires would be close to at least 12% to 13% because of the copper increase during this period and it is also at least 5% to 6%.

**Renu Baid:** Because all contribution margins have come back, so that is purely because of incentives and discount schemes and nothing related to the commodity prices?

**Anil Rai Gupta:** Nothing related to the commodity prices.

**Renu Baid:** Alright Sir thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

**Pulkit Patni:** Thanks a lot for taking my question Sir. Sir I just wanted to reconcile there was a news flow about 15 days back where the company is talking about targeting Rs.2500 Crores to Rs.3000 Crores of revenue from Lloyds I think by FY2019 given the run rate that we are clocking right now that seems a pretty big task, could you just help us understand how that number we could get to?

**Anil Rai Gupta:** First of all that number was gross number, so it included GST. It was reported as number, which included all GST and when we talk about net turnovers, we take out GST and we take out the schemes associated with the business, so that is the significant part. I do not think these two numbers are comparable.

**Pulkit Patni:** Understood Sir. That is very helpful. Thank you.

**Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

**Manoj Gori:** Thanks for the opportunity. A couple of things firstly on Lloyd, so can you just quantify like number of SKUs you had in the first quarter or maybe at the end of quarter two in air conditioner?

**Anil Rai Gupta:** Number of SKUs means what?

**Manoj Gori:** Means number of products like how many models you have in air conditioner?

**Anil Rai Gupta:** That is a very detailed question. I think we can take it offline.

**Manoj Gori:** Okay and Sir if I look at wires and cables division like we have reported 20% decline in revenues and despite taking a 10% to 15% price increase if I compare it from the 2Q of 2017, so I think the



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volumes have been impacted significantly. This could be on account of restocking in June quarter, so definitely you indicated about the sluggish demand from real estate, so can you throw some more light on the demand front?

**Anil Rai Gupta:** On cables and wires maybe 2% value growth in this quarter and yet on the quantity side, there is a degrowth in wire of 5% and let us say around 12% to 14% in cable.

**Manoj Gori:** Thanks Sir. That is all.

**Moderator:** Thank you. We will take the next question from the line of Ritu Chowdhary from Trust Capital. Please go ahead. Ritu your line is unmuted please go ahead.

**Ritu Chowdhary:** Good evening Sir. Sir this is Ritu Chowdhary. Sir congratulations for the great profitability numbers. I have few questions regarding CD segment? Sir we were growing approximately 20% growth in the previous quarters. Now, some last two quarters growth has tapered down, so how do we see outlook going ahead in coming quarters?

**Anil Rai Gupta:** You are taking of Lloyd or you are talking of Havells?

**Ritu Chowdhary:** Havells.

**Anil Rai Gupta:** I do not think we are growing 25% or so for quite some time. Having said that I think this is a reflection of what we perceive the demand on the ground and we are still growing 11%. Only our expectation is that we should be growing in high double digits in the segment. I think the combination of GST and the restocking at the channel I think is all leading to some muted growth. As I said we remain cautiously optimistic on this thing going forward. I think it is very difficult right now to expect that the next net quarter we will far better. So I think quarter on quarter, something cannot be predicted now.

**Ritu Chowdhary:** So that means festive season was not that impactful or not that great to push the CD sales?

**Anil Rai Gupta:** You can say that the festive season was mixed.

**Moderator:** Sorry to interrupt Sir. Sir your voice is not clear.

**Ritu Chowdhary:** Sir on Lloyd's side I have seen you have entered into Lloyd TV, so how do you see this TV segment will be growing and will it be meaningfully be adding to the revenues in the Lloyd segment?

**Anil Rai Gupta:** First of all we have not added Lloyd TV. When we acquired this business had been going for last few years. Yes we have visions from this product category. Significant I would say that air conditioning will continue to stay and these will be the products, which will continue to fill up



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the channels and provide the entire product range to channels. So I perceive at least 70% of these total sales would come from air conditioner.

**Ritu Chowdhary:** 70%. Sir how do we see A&P spend going ahead? So this quarter was quite soft?

**Anil Rai Gupta:** This quarter as we said had rained in the cost for this quarter. We will be coming back to our normal levels of percentage in the coming time.

**Ritu Chowdhary:** So 3% to 3.5% I am assuming?

**Anil Rai Gupta:** That is for the total term.

**Ritu Chowdhary:** Thank you Sir. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Abhineet Anand from SBI CAP Securities. Please go ahead.

**Abhineet Anand:** Hi Sir. First is what is our capex plan for 2018 and 2019?

**Anil Rai Gupta:** Almost Rs.200 Crores.

**Abhineet Anand:** Annually right?

**Anil Rai Gupta:** Yes.

**Abhineet Anand:** For the full year what is our expectation in terms of Havells sales growth?

**Anil Rai Gupta:** I think you would have seen that it is difficult to predict. We do hope that we should be able to still do double-digit growth, but I think everything will depend on how things pan out on the ground.

**Abhineet Anand:** That is it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

**Shrinidhi Karlekar:** Hi thanks once again for the opportunity. Sir I do not know whether I heard it correctly, but Sir did you say that you are compromising on cables and wire sales for profitability, is it correct?

**Anil Rai Gupta:** No first what I was saying that underground cables are a business with lower margins not domestic wires.

**Moderator:** Sorry to interrupt. Sir your voice is breaking up.



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- Anil Rai Gupta:** I think what I meant was that underground cables is half of the business of overall cables and wires and there the margins were traditionally been low. The overall idea is when the demand is soft there is no point in unnecessarily reducing your margins further. Hence we will try and retain margins or improve margins in the coming quarters.
- Shrinidhi Karlekar:** Fair enough. Sir traditional, how much of the domestic cable segment demand comes from the new construction and how much is the refurb?
- Anil Rai Gupta:** Mostly it is new construction.
- Shrinidhi Karlekar:** Mostly it is new construction. Okay. That is it. Thank you.
- Moderator:** Thank you. The next question is from the line of Snigdha Sharma from Axis Capital. Please go ahead.
- Snigdha Sharma:** Hi. Thanks for taking my question. Well most of my questions have been answered, but I want to just take the discussion on Lloyd margin a little bit forward, Sir you mentioned that we have aligned the Lloyd distribution network with Havells in center via structure. Now is that still work in progress or has it been completed.
- Anil Rai Gupta:** No we have not aligned with Havells structure. We said there have been certain structural changes, which has happened in the distribution network and the distribution policy, so it is not necessary that it is exactly the same because there, the industry dynamics are different from Havells and because of that there could have been certain cost efficiencies or margin improvement, this is what has happened and I think as you asked work in progress I think this is something we will continue to observe. It is just too early for Lloyd and Havells. We are just five months into this. I think this is something will continue to evolve. I do not think we can claim that whatever needs to be done has been completed.
- Snigdha Sharma:** Sure, but yes it is early days, but some of your initial cost savings on warehouse integration and backend functions like you mentioned has yielded very good results, so I am just wondering how much of this improvement can continue and also in terms of H1 versus H2, how does that mix look like for Lloyd in terms of margins? Can we expect better margins or can we expect this margin level to sustain in H2 as well?
- Anil Rai Gupta:** I think we should be sustaining.
- Snigdha Sharma:** All right that is it from my side. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sonal Gandhi from UBS Securities. Please go ahead.



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- Sonal Gandhi:** Hello Sir. I just need a little bit of clarification because your voice was breaking, so what you said that in cable business, there has been a volume decline of about 9% to 10%, am I correct?
- Anil Rai Gupta:** Yes.
- Sonal Gandhi:** Sir another thing in switch gear business I am seeing that the contribution has gone up to 41%, so if you could just mention a little bit about this, why the margins have improved in this quarter?
- Anil Rai Gupta:** Those margins were always 41%. If you look at our last year also the margins were pretty much the same. So what we have said is we are comparing Q-o-Q, so on that basis primarily because of the schemes and incentives we had given specifically on the GST arena, now those obviously were for temporary reasons and which have been withdrawn during this quarter, so otherwise the margins are the same as they have been always in this segment.
- Sonal Gandhi:** Okay Sir that is it.
- Moderator:** Thank you. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.
- Harshit Kapadia:** Thanks for taking my question and congratulations on a good set of numbers. Sir I just have only one question. Can you please quantify how much for the margin improvement is due to this change in this Havells parent policy for the distribution you have done?
- Anil Rai Gupta:** I think distribution policy has not got much to do with it. As we said there is a lot of cost efficiency, which come in the beginning. There is a lot of consolidation we have done whether it is warehouse or the back office. I think it is a mix of lot of things, which has resulted in this. Also I think we should be aware that there is a base effect on this. The way earlier the margins used to be reported, which is different because we reduced all the incentives and schemes from the topline itself, so you should not just take in apple-to-apple basis because the base effect also, there seems to be at least in terms of the optic, it looks like higher margin.
- Harshit Kapadia:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Jai Kakad from Haitong Securities. Please go ahead.
- Jai Kakad:** Thanks for taking my question. I just wanted to understand your perspective on how do you see this construction and market panning out, so are you seeing elongated pain for a while or what is your sense of this market in the market?
- Anil Rai Gupta:** We do not see the pain is going to reduce in the near future. I am sure you share the same view as well. This segment is on for a deep freeze for quite some time now.



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- Jai Kakad:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** Sir just one accounting question. I wanted to understand the difference between the 4% growth and net sales and the 6.7% growth adjusted for the excise exemptions. This is the ex-Lloyd topline growth?
- Anil Rai Gupta:** So basically some of our product categories were in and are still in the excise exemption zone, so earlier the reported sales used to include excise as a component because there was practically no excise so that benefit used to come in sales whereas the entire excise duty is reduced from the sales price and that benefit will come over and above in reserve material cost. So it is not shown in the revenue and hence that difference is attributed to this.
- Arnab Mitra:** Understood and I understand from the FMCG companies that the refund is still ready? The refund mechanism is still not there? So are you booking it in your cost that you are going to get the refund back for this quarter or have you not booked the refund?
- Anil Rai Gupta:** We have booked up to the strength of 58% though we believe that the government should give back 100%, but right now we have come out with 58% rule, which still have to be notified and once they have notified then we will start getting cash out of it. Yes we have booked 58% already into it.
- Arnab Mitra:** And that would be in the raw material cost basically, that refunds benefit?
- Anil Rai Gupta:** That is right.
- Arnav Mitra:** Sure, okay. Thanks. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Charanjeet Singh from B&K Securities. Please go ahead.
- Charanjeet Singh:** Hello Sir. Sir just wanted to check about the pricing action versus what the Havells has done after GST and versus what the competition would have done, so you have seen the pricing action by the other competitors at a similar level or how has been that if you have to compare industry versus Havells from the pricing?
- Anil Rai Gupta:** I do not think there is any pricing action that we feel that we have done, basically restructured our base prices so that there is better transparency for this improvement. MRP is becoming a bigger play in the entire thing. We did not want any of the dealers or retailers to be charging anything at a higher price because the MRPs were higher earlier, so we make sure that these distributors and traders margins are in the normal range that they are not able to somewhat fleece



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the customers in any way, so we have reduced all our MRP, but in effect we have not changed our net pricing because we have taken away some product keys also, volume base schemes to the dealers and distributors, so net-net there is no price increase except in the case of products where there was significant raw material pricing.

**Charanjeet Singh:** And Sir the last question from my side would be if we look at January 2018 there will be this transition to more of inverter ACs and so how do you see can Q3 see some kind of a pre buying in the AC market as the prices are expected to go up for that particular star rating and as the market moves to inverter AC segment and how we are prepared in Lloyd specifically for this market transition?

**Anil Rai Gupta:** We are completely prepared for this market transition. It would be some prebuying possible, but then again this is just a component of sales to a particular product. Again it is insignificant.

**Charanjeet Singh:** Thanks. Thank you Sir. That is all from my side.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Ms. Bhoomika Nair for her closing comments.

**Bhoomika Nair:** Yes I would like to thank everyone for being on the call. Thank you very much Sir for taking timeout and giving us an opportunity to host the call. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.