



“Havells Limited
Q3 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Havells India Limited Q3 FY2019 Earnings Conference Call hosted by IDFC Securities Limited. 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 by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Sir!

Bhoomika Nair: Good evening, everyone. On behalf of IDFC Securities, I would like to welcome you to the Q3 FY2019 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 and Group CFO; and Mr. Rajiv Goel, Executive Director.

I will now 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. Dear friends, good afternoon. You must have received the financial results for the quarter. We are quite encouraged with growth across the product verticals and channels. We continue to invest in capability building, increased channel penetration, brand proliferation, augmenting production capacity and building innovative solutions.

The next couple of years will be a period of investment and institutional reinforcement to capitalize on emerging opportunities in the country. The margins are muted owing to volatility in commodity prices and fluctuations in foreign currency. However, we expect improvement over the next few quarters, as commodity prices seem to be stabilizing and receding.

To summarize, we are broadly optimistic on growth and margins going forward. Bhoomika, now we can invite questions from the attendees.

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 Venu Garre from Bernstein. Please go ahead.

Venugopal Garre: Thanks for the opportunity. My first question is just to understand sales for the ECD division. While you have made some comments in the presentation with regards to growth being driven through the domestic appliances segment, just wanted to understand, is it more water purifier-led? And has growth also been on account of Water Heaters? That is the first question.

Anil Rai Gupta: So water purifier is definitely leading to some growth because last year, we had just launched the product. So yes, some of the growth is coming from that. But the major growth has been contributed by domestic appliances and Water Heater.



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Venugopal Garre: Okay. Sir, secondly, if you could also comment on since this was a festive sort of a season if you could comment on how the sell-through has been for the ECD products. Any comments that you would have heard from the channel? And also what has been the driver for the sales for Lloyd in this quarter? Is it more TV-led or even AC business has been a driver?

Anil Rai Gupta: So on the ECD side, I would say that the festive demand seemed to be all right. But I think much of the growth has also come from internal changes and improvements that we have done over the last couple of years on the product side. So I would not entirely term it to be market demand only. And on the Consumer Durables side, yes, because of the festive season coming in the scene in November it was led more by LED panels. And though air conditioners have also had a decent growth in this quarter; however, it had a very small base last year. So I would not really be too optimistic about this thing. It was a decent growth on a smaller base. I can say that while the festive demand in Diwali was quite okay, but generally, not just in ECD and Consumer Durables, there has been a little bit of contraction in consumption over the last couple of months. And when we just did a bit of analysis, it has been found that mainly because of liquidity squeeze in the channel because of the NBFC-led situation. So I think it should be quite temporary over a period of time. Over the very short time, I think things should come back in a good way. The government, they are all taking measures for this liquidity trends to be going away. So hopefully, things should come back to normal very soon.

Venugopal Garre: Sir, if I may ask a follow-up on this, so with switchgear and cable, you mentioned it is government-led, which has been the case even previous quarter. Now are you seeing a slowdown there, given that normally activity starts closer to the election sort of event?

Anil Rai Gupta: Yes. So there is election. However, there is also a fourth quarter. So generally, fourth quarter, there is more government-led demand, which comes in. So I think things should remain all right for the next couple of quarters.

Venugopal Garre: Thank you so much.

Moderator: Thank you. The next question is from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh Bhatia: Thanks a lot for the opportunity. We had a very strong quarter, this one. Can you break the growth between, say, what kind of volume growth you have seen, with what kind of market share increases and what kind of price increases you have taken in each segment?

Anil Rai Gupta: Other than Cables & Wires, I think practically everywhere we can see there is volume-led growth. Because in this particular quarter, in the last couple of quarters, though the raw material prices have gone up, but again we saw sort of a channel stuffing, which had happened because of a low season, especially on the Consumer Durables. So there was not much scope for price increases, which will happen now. But however, the commodity prices are also reducing. But I



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think other than Cables & Wires there has not been any value difference between value growth and volume growth. I think in Cables & Wires 24%, 25% volume growth. And the rest have been coming from value growth.

Inderjeet Singh Bhatia: Okay. Just one more follow-up on that. Have you seen a major market share improvement in other segments because our distribution?

Anil Rai Gupta: Current quarter, we cannot see major improvements in market share. And neither it is monitored over significantly. I think over the last one or two years, which we see because even market research comes back in some time, we have seen market share gains in many of the product segments.

Inderjeet Singh Bhatia: Thanks a lot.

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

Ravi Swaminathan: This is in continuation to the previous question. Past nine months, what would have been the kind of market growth in, say, Switches, Cables and Lighting year-on-year? If you can give a broad sense of that, it would be really helpful for us to understand how Cable's growth was versus the market?

Anil Rai Gupta: I think, overall, we can say we have grown faster than the market. But this year, the year starting, overall, there was better growth in the economy because last couple of year's things has slowed down with disruption, couple of disruptions, which were always good for the long term. But short-term disruptions are there, whether it be demonetization and GST transition. So this year, on a lower base, I think the overall market grew. But definitely, we believe that we have grown faster than the market.

Ravi Swaminathan: Okay. And is it because of GST also that you would have observed that unorganised slowly vanishing away? Or is it like you haven't seen that kind of shift?

Anil Rai Gupta: I do not think I would attribute a lot of growth share towards that.

Ravi Swaminathan: Okay, Sir. And with respect to segment ECD, what could have been the kind of Fans growth that we would have seen this quarter, Sir?

Anil Rai Gupta: So Fans growth is definitely lower than the consolidated growth because growth is faster in appliances. But I can say that it is in high-teens.

Ravi Swaminathan: High-teens volume growth would have been there. Okay.

Anil Rai Gupta: That is right.



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Ravi Swaminathan: And what was the proportion of sales of AC and LED TVs and others in the Lloyds business this quarter?

Anil Rai Gupta: Overall, we can give it at the end of the year because this is so seasonal in nature. So I think it is better to look at it over a 12-month period.

Ravi Swaminathan: Got it, Sir. And my last question, what would be the quantum of price increase that we will be taking in the fourth quarter of this year, on a blended basis, if you can give?

Anil Rai Gupta: So at this moment, because raw material prices are still volatile, it will be difficult to give any guidance on that.

Ravi Swaminathan: Thank you.

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 astonishing results. Sir, I just have two questions. Would it be possible to break down that 29% growth we have seen in Havells ex Lloyd business in domestic market and export market? Just wanted to understand if there is a major difference in domestic or export? And another is I want to understand the growth in Cables and Switchgear segment. The consumer-facing business of that, like non-government and non-B2B business, how has that grown?

Rajiv Goel: In Cables & Wires?

Shrinidhi Karlekar: Cables and both businesses, Sir. How has been the consumer-facing business or in those 2 segments, like non-government, non-B2B business?

Anil Rai Gupta: I think I cannot give specific numbers. First of all, your question on the export front, 95% of us here is still domestic. So I don't think even a faster growth on exports on a lower base would change the needle so much. And secondly, as far as domestic versus consumer-facing versus B2B, I think overall, you can say because of the government push, there were a little bit higher growth in the industrial and government-oriented products. So industrial products, we grew well. Underground cables also, we have grown there. But I think even in the other segments, the growth has been over 20%.

Shrinidhi Karlekar: Thanks for answering my question and all the very best.

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

Renu Baid: Good evening Sir. Congratulations for the strong performance. Sir, my first question is on the overall pricing scenario in the market. First, both with respect to ECDs and Lloyd's portfolio,

how are we looking at the market factors to ensure that in the coming season, we should be able to take the price increase, which has been required?

Anil Rai Gupta: In the coming season, sorry, can you repeat the question?

Renu Baid: What is the outlook on the end market demand, which gives us comfort that the price increase, which was impending, should be broadly affected in the coming season and the margin recovery which should come through should span across the next 6 months?

Anil Rai Gupta: So in the coming season, if we look at the Consumer Durables and ECD, fans is definitely larger part of ECD. I think there is a little bit of a different scenario between fans and air conditioners. Air conditioners in the last few quarters, the dollar prices have moved up. The custom duty has also moved up. So there is an impending price increase, which will happen in air conditioners. Obviously, it is already happening. And it is also affected by the fact that there was too much channel inventory over the last nine months. And hence, the price increases were delayed. So this should pan out over the next couple of quarters. It also a lot depends upon the season, the coming season. So how the demand pans out, it is very difficult for me to say how the demand will pan out. But as far as pricing and margins go, I think we will have to just play it out in the market for the next couple of quarters. As far as Fans are concerned, as I said, we are reviewing the raw material prices on the stable commodity price increase over the last few months. And hence, those price increases, if required, will be only given to the market. And I think that should take care of both the growth as well as margin, so lesser concern on the Fans side both on the growth and margins front.

Renu Baid: Sure. My second question is again coming on the Lloyd side; recently we had launched this new range of ACs, Grandè, essentially targeting the premium segment of the market. So what is the strategy now incrementally in Lloyd? Are we looking to meaningfully expand the portfolio in the different pricing category to help improve our margins? And how has been the activities and development so far with respect to the efforts to increase the reach and distribution here?

Anil Rai Gupta: So I have always mentioned on Lloyd, and it is a general, I would say, commentary that I would give for the benefit of everybody. We have always maintained that there is a journey, which Lloyd will be carrying out over a longer period of time, over, let us say, the medium term, which is to take this brand from a mass brand to a mass premium brand. As I have always said, this will require the company's focus on all the inputs, which are required to make a brand, let us say, improve in its image in the consumers' mind, which is branding, which is product innovation, which is depth of distribution and the kind of motivated teams that we have in the marketplace. So all these 4 or 5 things, including channel, are being worked upon. And hence, you see changes already in the marketplace as far as the product ranges are concerned. So if you want to move from mass to mass premium, you need to have more feature-oriented products, whether it is in television, washing machines or air conditioners. And this will take the brand to a mass premium brand, which has to be backed by the right branding, which has to be backed by the right kind of

distribution trend. So Lloyd was more for distribution-oriented products, whereas if you want to sell higher feature products, then you need to be present in the modern format retail, the digital retailers. So all kinds of channels you have to be present. So all these activities are being worked upon as far as Lloyd is concerned. And it is something, which cannot be really commented upon quarter-on-quarter. It is experienced or seen over a period of time as has happened in the case of Havells, over a period of time, has moved from a mass brand to a mass premium brand. Over a period of time, this will happen in Lloyd as well.

Renu Baid: Sure. And for my last question, just to sum up with respect to the demand environment, last quarter, remember, you mentioned that you were seeing some positive tailwinds. And towards the end of 3Q, you did mention that the liquidity issues apparently have impacted demand. So as we look ahead for the next three to four quarters, we have elections. Liquidity should improve mightily in this market. So what will be your reading on the end market demand from the core house related sector plus the overall market in general from other categories and consumption points also?

Anil Rai Gupta: Yes, I think the first six months of this year reflected that the core fundamentals of demand are strong in India. And this has always what I have mentioned in my past commentaries also. And so I am very positive about the medium-term outlook for demand in the country, whether it is real estate-driven, whether it is industrial, whether it is government. So we are quite positive about that. However, there will be certain impediments, certain changes might happen on commodity prices or, as I said, the liquidity squeeze has happened. So these are mainly short-term glitch, which can happen in a good story for medium to long term. So I think, overall, we are operating in a very good story. However, I cannot really comment on what can happen in the next couple of quarters. I believe if this is a liquidity-led contraction and consumption. This should get eased very soon.

Renu Baid: Thank you.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: First of all congratulations on great set of numbers. Sir, if I look at the lighting segment, after two quarters of very weak numbers, we have shown a very strong growth in the Lighting segment. So any key reasons for this growth? And how do you see it going forward?

Anil Rai Gupta: Actually, I think in the reported numbers, it is 28%, showing as growth. But actually, the growth is 18%. And the volume growth is, however, valued more than 18%. This is because some of the B2G projects have been clubbed into Lighting because they were otherwise generally, we show them as a separate category in others. This time, we have clubbed this on Lighting. So this business is affected because this is primarily lighting, so it was not right to show it as others. But



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otherwise, the core lighting, which has been our trade in industrial and commercial business, there it is 18% growth.

Charanjit Singh: Thank you.

Moderator: Thank you. The next question is from Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Congratulations on a very strong set of numbers. Sir, you had talked about that the B2C-facing businesses in Cables & Wires and Switchgears segments have grown at like more than 20%. Just wanted to understand what is driving that growth, because when we see the housing segment and all, that is not doing very well. And you already have a very high market share at least in the Switchgear segment. So have you seen the market itself showing signs of recovery and there is a high-teens kind of a growth or you have gained further market share even from where you were earlier?

Anil Rai Gupta: I think we have been missing the penetration in deeper distribution, whether it is urban towns or rural towns. So that has helped us grow faster than the market. But as I said, we experienced higher demand coming in the first 6 or 8 months of this year. A little bit of slowness has happened over the last couple of months. But that again should be temporary. But I think we have definitely grown faster than the market.

Nishit Jalan: Okay. Sir, just trying to get more insight into this, if I look at, on a 9-month basis, your core basically, your ex Lloyd revenues have grown by about 25%. So is it fair to assume that industry itself would have grown in mid-teens and all and maybe the remaining growth would be driven by your market share gains and annual product launches and faster growth in newer categories, like water heaters, domestic appliances, water purifiers? Or do you think otherwise?

Anil Rai Gupta: Of course, you are right, the market may have grown by that much, which also you have to appreciate that last year, the entire industry faced a bad June and July because of the disruption in GST, the transition from one regime to the other. So both June and July and to some extent until August, things have slowed down. So it was a low base. So it is not only was it a low base for us but for the entire industry.

Nishit Jalan: Okay. Sir, the last question from my side, where are we in terms of our new factory that we are setting up for Lloyd? When is it coming in basically?

Anil Rai Gupta: So we are on track. And I think we should be starting production in the month of April.

Nishit Jalan: Thank you.

Moderator: Thank you. Next, we have a follow-up question from Charanjit Singh from DSP Mutual Fund. Please go ahead.



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- Charanjit Singh:** Sir, in the ECD segment if you can give us the number for Water Heaters for the 9 months. And what has been the growth over the 9 months period?
- Anil Rai Gupta:** We actually do not give numbers specifically for the BUs.
- Charanjit Singh:** Okay. And Sir, if we see the ECD segment, we have seen a significant dip in the margin during this quarter. And like we intend to take certain price hikes and all that. So if you can highlight what kind of price hikes which we are looking at and how are the kind of inventory levels right now in the system?
- Anil Rai Gupta:** So inventory level is not a concern, I think. But there is some inventory buildup, which has happened because of the upcoming season for the Fans. But overall, Rajiv, would you like to comment?
- Rajiv Goel:** Yes. You see, on the margin side, what we have commented that last year, we were around 27% on an annual basis. Even 9 months, we are tracking the same. So we believe, I think we will be able to maintain the margin. So kind of quarterly, there could be certain dips and there are some commodity cost inflation, which we could not pass on. But as a commodity cost itself in ECD, I think we will wait and watch here. But we believe that the margins will go back to their sort of annual average of around 27% in ECD.
- Charanjit Singh:** Okay, sir. Sir, the inventory buildup?
- Rajiv Goel:** No, there is no significant inventory buildup. These are more festival-led growth.
- Charanjit Singh:** Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from Sonali Salgaonkar from Jefferies. Please go ahead.
- Sonali Salgaonkar:** Thank you for the opportunity. Sir, my first question is this 22% growth in Lloyd, that revenue growth in Lloyd that we have seen this quarter. Is it possible to approximately break it down into value versus volume?
- Rajiv Goel:** This is largely value only. But I think, Sonali, what you need to also contextualize, there was a very low base for this quarter. So these are some absolute growth, could look at the higher in terms of percentage terms. I only mentioned it be led by the percentage in that case. And Anil mentioned earlier on this call that because of the festive season, there has been a slightly larger growth on the TV, which we had been traditionally very weak on the same.
- Anil Rai Gupta:** In terms of air conditioners, the values have changed quite considerably over last year because the ratings were different and the average price of air conditioners has gone up considerably this year.



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- Sonali Salgaonkar:** Sir, what will be the average price increase that we have seen over the past one year?
- Anil Rai Gupta:** So it is a combination of many things. So it is very difficult to say. We have custom duties with the ratings change. So it would be a combination of many things. I think again, as I said, let us look at overall full year period. In March, maybe we should do that.
- Sonali Salgaonkar:** Sure, Sir. Sir, to an earlier question regarding the demand in Switchgears and Cables & Wires, you mentioned that the growth was also a factor of you investing in penetration and growing deeper, right? So approximately, can we have a split of rural growth versus urban growth in these two segments?
- Anil Rai Gupta:** Rural growth is still a very, very small number, and especially not at all in this segment. So we are starting our rural penetration through lower-priced products, lower SKU-priced products like lighting. So rural would not have contributed significantly. But we are deeper into semi-urban and B class and C class town, that is something which is leading the growth.
- Sonali Salgaonkar:** This is helpful. Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Thank you for the opportunity Sir. First, I wanted to understand, you said in the opening remarks that in the next 2 years, you are looking for more investment opportunities. If I look at the run rate with respect to the unallocable expense that seems to have been increasing quarter-after-quarter. So how do we look at this unallocable expense going forward? Do you think now we have kind of reached stability or you think there could be further increase in this run rate?
- Anil Rai Gupta:** So there are two kinds of investments, which we are talking about, one on the capacity expansion. So that will happen over the next couple of years. Because if we are looking at decent growth in the next three years, you need to build capacity in the next couple of years, maybe in the existing facility, but we have to invest. The other thing is that I was talking about capability building. That is something, which we believe that the next few years, we are definitely looking at decent growth. So we want to build capability. In India, there has not been much investment in capability development and research and innovation, so we are building capabilities there. Even as the company becomes larger, we are investing into people who are not directly coming from industry. So we are building capabilities to look at each business as a separate business. So I think over a period of time, if you ask this question, I do not see that there will be a significant change in the unallocable expenditure. So that will remain for the next one or two years beyond which, we will look at operating leverage in some way.
- Achal Lohade:** Got it. And you said about the capacity expansion, so possible to just broadly highlight what could be the utilization at this point in time and what kind of capex are we looking at for I

presume, you are talking about Havells business ex Lloyd for the capacity expansion. So whatever utilization, what's the capex?

Anil Rai Gupta: Yes, pretty much, we are now reaching a level that we are between 70% and 80% in capacity utilization. So in the next meeting we will be coming out with that capital expenditure plan for the next year.

Achal Lohade: Got it. And just the second question with respect to the working capital. So if we look at, in the second quarter, we had paid down the creditors. So our creditor days have declined. Wanted to understand your perspective as to how do we look at it going forward. Do you see this is normalized now? Is there a further reduction in creditor days? What is a sustainable working capital day should we look at?

Rajiv Goel: The criteria which we prepared in this quarter was more opportunistic and also led by volatility in the forex, 30-odd days, So I think we normally have been in 30-odd days. If you remember last year, it was 29, now we have slightly gone to 34. And I think we are really pretty much around 29 to 30 days. I think it will normalize over the next few quarters. But we had a one-off event of the prepayment of creditors.

Achal Lohade: That is really helpful. Thank you.

Moderator: Thank you. The next question is from Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Thank you Sir. Sir, my question is on the pricing environment again. So in second quarter also, we saw a bit of the pressure on the overall margin. And at the time also, you commented that going ahead, you will take some price hikes, which should normalize it, which does not seem to have happened in a big way in the third quarter despite third quarter being a festive quarter. So I mean, is it your well-thought-of strategy that you will stagger the price hikes over a longer period of time? Or is it a case that the market conditions will probably be a little tough for the price hike to be taken in the third quarter? So I mean, any more colour on that will be helpful.

Anil Rai Gupta: Yes, I think these raw material prices had been volatile and so we had to look at the competition also, how they are behaving in the market. So yes, we have taken a little bit more time and still reviewing the situation as we have discussed. We will continue to review the situation. And in an appropriate time and with the kind of products that is required, there only we will be taking price hikes. But as Rajiv has mentioned just now, that we are definitely looking at an overall basis to come back to similar contribution margin levels.

Atul Tiwari: Okay. And Sir, my second question is on the outlook and the guidance for the revenue growth number. So until about couple of years ago, you used to give guidance for the next year's revenue growth. And then things became a little slow and a little volatile. But now it appears that things are picking up quite sharply for you, very strong revenue growth in the first 9 months. And even



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your commentary suggests a very healthy environment. So I mean, would you consider giving some kind of revenue growth guidance for next 1 or 2 years?

Anil Rai Gupta: Healthy environment is for the medium term. That is why we never give guidance because it is very difficult to predict the short term.

Atul Tiwari: Thank you.

Moderator: Thank you. The next question is from Kartik Mehta from IDFC Mutual Fund. Please go ahead.

Kartik Mehta: Good evening Sir. Thanks for the opportunity. Sir, on the Lloyd's front, particularly on the air-conditioning side, I wanted to ask, since you are mentioning that the base was quite favorable. But if I am not wrong, last year in the December, because of the energy norms and all, there was a very good sales growth in the air-conditioning front in the month of December. So for the AC, the base was not that much favorable. So if you can just throw light on what the AC growth for the Lloyd division for the current quarter?

Rajiv Goel: Yes. AC was largely flat. I think that is what we mentioned, that this is largely driven by the festive season. And I think you were aware last year, the festive season was in the earlier quarter, at least the sell-in. So I think this is what we clarified, that this is largely the deal. Particularly, also the base is very small, so certain number can swing, when you see the percentage growth, whether this side or the other side.

Kartik Mehta: Right. And how is the total inventory, including the company inventory in that system, even channel inventory, 2.5 months together for the AC?

Rajiv Goel: For the air conditioner?

Kartik Mehta: Yes.

Rajiv Goel: Very difficult to say. But there is one thing where we correct that there is still a channel inventory. Because I think we still need to see a good season. And I am sure you are the criss cross of the industry and its players. So I think we are all waiting for the seasonality to kick in and a good season. So I think this can only be answered maybe in the next few months.

Kartik Mehta: Okay. Sir, and the second question is on the Lighting front. While you have not probably felt the pinch of the somewhat price inflation in the Lighting, but a few of your competitors have felt that. And while they are saying that now the pricing environment has started improving, so have you ever seen, first of all, like an environment for you which was not that difficult, but system-wide, the environment is improving on the Lighting front from the pricing point of view?

Anil Rai Gupta: I do not see any major shift. I do not know what you are referring to. But I do not see any major shift, especially on the LED segment. The only way we are able to maintain margins is through



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innovative products and deeper penetration. So that is what we are continuously working on. I do not see any change, which will happen in the last 1 or 2 quarters.

Kartik Mehta: Okay. And on the Cables & Wires front, since we have seen the raw material prices and copper prices going down, do we foresee any sort of inventory-related losses in the coming quarter?

Anil Rai Gupta: I think we do not have much inventory buildup in the system, so we do not foresee that.

Kartik Mehta: Thanks lot. Best wishes.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Thanks for taking my question. First of all, my first question is on the Lloyd. There has been an increase of Rs.400 Crores on the capital employed of Lloyd and Rs.100 Crores roughly in the sales. So I just wanted to understand how this thing happened.

Anil Rai Gupta: No, this is largely, as we said, the payables have been prepaid, unlike last year. And there is also the capex, you see part of the capex which we have already spent this year. This is a factory which you are aware is coming up and will be operational by April. Yes, so it is both working capital and the capex.

Nitin Arora: Okay. Interesting. My second question, as you highlighted in Lloyd, that it is largely a value growth, which happened in this quarter. And we also saw in December you taking price hike in the off-season, correct me if I am wrong, in some of your SKUs in ACs. Is it possible to quantify? Cable, you have already quantified, because I am not talking about particularly your distributor and dealers. They do not talk too much strong in terms of volume growth in the Switchgear, or let us say, in the Lighting or in ECD. So I just wanted to understand that because usually, the commodities costs are up only in the last 9 to 12 months, and your margins did not deteriorate at that time even though commodity has started cooling off in the last 2 months and margins only went down. So I just wanted to understand that it is primarily a value growth that has come? Or is it largely a volume growth because the volume growth could be as high as 30%, it looks like.

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

Nitin Arora: No, I am talking about the core business now. Havells.

Anil Rai Gupta: No, I think if you look at the other 9 months, there have been increasing commodity prices, which have been partially passed on. So I think there is a volume growth and a value growth. But I think in Switchgears, it is difficult to point you how much is there for the price and how much is volume. I think with Switchgears, it really will be volume growth. So I think even in ECD,



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ECD maybe fans a little bit of value versus volume growth. But primarily, I will say the difference between volume growth and value growth will not be more than 3% to 4%.

Nitin Arora: Will not be more than 3% to 4%? All right.

Anil Rai Gupta: Other than Cables & Wires.

Nitin Arora: All right. And then largely, as I understand, the revenue growth has been on the very higher side. Despite the operational profitability has been always capped, as you very well explained about the margin in that particular thing. Do you still see margins to normalize? Is it possible to quantify what is the normalized margin you are looking now because the base of the business is not growing very fast? So I just wanted to understand because employee costs also sequentially has started increasing for you. So is it just because passing a price hike gives me operational advantage here because despite growing 30%, the margin is still not increasing? So just wanted to understand that, what is the normalized margins you were looking at in the medium term, as you are very confident of a healthy environment in the medium term?

Anil Rai Gupta: I will give you ex Lloyd. Lloyd, we are not right now disclosing. But ex Lloyd, last few years have been 14%-14.5% of EBITDA. We believe in the next few quarters, we should strive to get there.

Nitin Arora: Thank you very much.

Moderator: Thank you. The next question is from the line of Chockalingam Narayanan from BNP Mutual Fund. Please go ahead.

Chockalingam N: I just wanted to understand this Rs.102 Crores corporate investment in the balance sheet. What does it pertain to?

Rajesh Kumar Gupta: It pertains to deposit to the HDFC Limited.

Chockalingam N: Thank you.

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

Abhineet Anand: Thanks for the opportunity. I understand the present seasonality is small and cyclical. But for the 9 months, can you quantify in Lloyd what could be the issue of ACs, TVs in terms of value?

Anil Rai Gupta: Can we give it at the end of the year? That will be better, at the end of the financial year.

Abhineet Anand: Okay. And secondly, within Cables, if you can give a split of B2B and B2C for value for 9 months.



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- Rajiv Goel:** Almost 50-50.
- Abhineet Anand:** And that remains the same almost like last year, right? Or is there any change in that ratio?
- Rajiv Goel:** Sorry, can you repeat the question?
- Abhineet Anand:** I think you said that it is 50-50.
- Rajiv Goel:** Yes.
- Abhineet Anand:** So for the last few years, has that number inched up towards retail side? Or has it been largely constant?
- Rajiv Goel:** So I think it used to be around 45% customer and 55% B2B, but now it is moving towards 50-50.
- Abhineet Anand:** Thank you.
- Moderator:** Thank you. The next question is from Vishal Chaudhary from Narnolia Financial Advisors. Please go ahead.
- Vishal Chaudhary:** Sir, I just want to know what are your new product launches? Sir, I want to know what are your new product launches going forward?
- Anil Rai Gupta:** I think this is an ongoing process, so there is nothing specific we have in mind. We have just launched last year a water purifier. But these product launches keep happening in every BU and SBU. So I mean, it is difficult to point to anything specific. As we launch, we will inform the Stock Exchange about it.
- Vishal Chaudhary:** Okay, Sir. And can I know your market share in the economy segment?
- Anil Rai Gupta:** Fans?
- Rajiv Goel:** No. Again, we would not like to give because there is a lot of competition in the value market share, volume market share. And somehow, we are looking at our growth rather than the market shares in India. We are not present in the economy segment. We are only present in the premium segment, whether we take the entire base or whether we take ex-economy. So we are not giving market share numbers.
- Vishal Chaudhary:** Okay Sir. Sir, this is the just last question. Can you also guide me on the ad expenses for FY20?
- Rajiv Goel:** 3%-3.5%, which is the normal level we are maintaining for the last few years. 3.5% of the revenue.



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- Vishal Chaudhary:** Thank you.
- Moderator:** Thank you. The next question is from Vinod Bansal from Franklin Templeton. Please go ahead.
- Vinod Bansal:** A couple of questions. First, on Lloyd. If you could just tell us about your touch points, how much it has grown this quarter and this year?
- Anil Rai Gupta:** This is also because we are expanding channels, not only in the distribution side, which is going again, we put into dealer segment. And there is some churn happening on the sub-dealer side as well. Also, we are expanding on the modern format retail. It is a continuous number, which is happening. I do not think we have comparative numbers at this point.
- Vinod Bansal:** Sure. I asked this because when you acquired, we used to talk about, about 10000-odd touch points when we talked of the brand. Would it be substantially ahead, about 11000, 11500? Or it was the same number?
- Anil Rai Gupta:** I think the reality is that the 10000 numbers are more of the touch points, which have happened in the past. But you need to get really deep down to the extraction of this channel. So really, in today's terms, actually where we are expecting, probably we maybe at a number of around between 7000 and 8000.
- Vinod Bansal:** Fair enough. Fair enough. And do we have some targets in mind as to how many more retail touch points we wish to go to in the next couple of years?
- Anil Rai Gupta:** No, it is a continuous increase, which will happen. We do not normally go by this kind of a target number, but it is a continuous increase.
- Moderator:** Thank you. The next question is from the line of Navin Trivedi from HDFC Securities. Please go ahead.
- Navin Trivedi:** Good afternoon everyone. Congratulations for strong numbers for the core business and Lloyd business. Sir, my question is on the RAC side. If you can give us how has been the RAC industry growth within the quarter? And also if you can elaborate, are you also witnessing any competitive pressure on your EBIT margin profile? Although like third quarter is not a very important quarter from at least, your point of view, but going ahead, are you also seeing any pressure on EBIT margin?
- Anil Rai Gupta:** But as we have already said this that this year has been not a very good sale for the RAC industry and there has been inventory buildup in the channel, will definitely put comparative pressure on the pricing.
- Navin Trivedi:** Any growth trends, which you have witnessed if not for you, at least from the industry side, how have been the trends for the quarter?



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- Anil Rai Gupta:** Similar thing not a very great year for air conditioners.
- Navin Trivedi:** Fair point. Last question is on the ECD business so last five consecutive quarters, we have seen more than 30% growth so there has been a lot of initiatives, which you are taking along with the improvement, which you are seeing in the demand side if you can just give some understanding about how much this growth is driven by distribution expansion or may be new product launches which you are doing so that gives an idea about how we should see this segment to have sustainable growth going ahead?
- Anil Rai Gupta:** The only new product launch, which is happened is only water purifier, which is still very small percentage of the entire share so the rest is all coming through a combination of product let us say refurbishment in a sense, refurbishment means constant churning and innovation of the model and deeper penetration within the channels, so we have also said in the past that we were, let us say, under optimized optimally using working on our is domestic appliances, which is now started kicking in, last year water heaters was low base because there was less growth, so we had a low base where the growth is coming. Fan continues to do well through our premium strategy so overall I think it is a combination of many factors. I cannot attribute a certain percentage from each.
- 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. As I look through your cash flow statement, your PBT for the first 9 months is close to about Rs.847 Crores. And the operating cash flow, which is before your capex, is about Rs.115 Crores. Now I can understand this particular quarter given that there was a lot of inventory into the channel. But how should we look at our working capital going forward? Because this conversion ratio is much lower than what we are typically used to seeing in your case.
- Anil Rai Gupta:** So again, you rightly said that this was a particular quarter where the inventory buildup happened, and working capital, and creditors has got prepaid because of a special situation. I think things will get normal by March end of the year.
- Pulkit Patni:** By end of March quarter you mean?
- Anil Rai Gupta:** End of March, some inventories start getting depleted by end of March, but these season continues until end of June.
- Pulkit Patni:** Understood Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Jay Kakkad from Ambit Capital. Please go ahead.



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Jay Kakkad: Thanks for taking my question. Sir just wanted to understand this on the lighting side currently there is, based out of new demand when LED is coming but after a point, replacement demand was start taking it so how are we becoming ready for the replacement demand in the Lighting segment?

Anil Rai Gupta: Right now there is lot of replacement demand in the next coming few years, because of old technology getting replaced into LED so I do not see that we have really tapped the entire potential, there is lot yet to happen and over a period of time I think innovative products, innovative solutions to sales, solution selling, these are things that we are working on to continue to maintain the momentum of work so I think both replacement demand is still yet to continue.

Jay Kakkad: Because why I am asking this question because when the first buying happens, the buying decision is very different from when the replacement happens, so just I was wondering if there is a focus not availability of?

Anil Rai Gupta: In fact we are much better placed to cater to replacement demand because our distribution reach is much better than many others, hence I think we should be okay not only as a solution selling, but solution selling the first time demand that you are talking about this will continue to remain in India, this building and new build would lot cover way in a short period of time.

Jay Kakkad: Thanks for answering my question Sir. Thank you.

Moderator: Thank you. The next question is from Laxmi N from Catamaran. Please go ahead.

Laxmi N: I have couple of questions. First question is regarding your plans for refrigerator. How far are we from launching refrigerator in the Lloyds brand? Second question is pertaining to the distribution reach, which you addressed sometime back in terms of X number of retail outlets. My question is that what is the potential in terms of the distribution reach enhancement because there may be some states where you do not have presence right? And then finally I see that almost a fifth of incremental TV sales are coming from online and ratio is also like 15% for industry if I get for air conditioner etc., what is our plan online distribution for Lloyds?

Anil Rai Gupta: As far as the first question on refrigerator go, I think right now we are doing feasibility study on buying versus putting up a manufacturing plant, whether entering into this product category through sourcing can be a good alternative. Though we have lot of demand coming from the channels but we need to review it properly so this is a study, which is going on, hopefully that is feasible, then probably within the next 12 months we should have a refrigerator in our range, but if it turns out to be more of manufacturing oriented product then we will have to wait for some more time. As far as the penetration goes, I think definitely there is a huge potential to grow this number may be from 7000-8000 to 12000-15000 in the coming years, it does not happen very quickly, yes there is a huge potential for the distribution to grow. What is your third question?



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- Laxmi N:** Regarding online sales of televisions and air conditions, I believe that it is almost touched 20% of incremental sales at an industry level and how are you thinking about it?
- Anil Rai Gupta:** There are some brands, which are more online oriented so brands which are both offline and online, I do not think that number percentage is relevant so hence the number is much smaller in our case most of it is offline.
- Laxmi N:** Is it for us, most of it is offline?
- Anil Rai Gupta:** Yes.
- Laxmi N:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Sir I just wanted to know what will be the number of touch points for your core business, I mean this year where we are last year came either in terms of distributor or dealer touch points, how it has increased?
- Anil Rai Gupta:** We now cater to almost in 7,000 direct touch points and indirect touch points while we have more than 1,00,000, I would say, where we get real traction is almost about 60,000.
- Ravi Swaminathan:** How this number would have been last year, any idea?
- Anil Rai Gupta:** We are expanding almost by 10% to 15% every year.
- Ravi Swaminathan:** 10% to 15% every year okay and how has performance of standard brand has been, so what would be size of it as of now in your overall portfolio?
- Anil Rai Gupta:** Standard brand has been doing well both on the traditional segment, like wires, fans and water heaters. Water heaters have just started. And the segment has also started doing well. This year we should be doing almost Rs.500 Crores from the brand.
- 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 for good set of numbers. Sir since you are saying that there is pickup in infrastructure, electrification and you are seeing high growth in Cables, Wires and Switchgear segment, can we also expect let us say what the next few years, you could be adding may be products to more of your brands to enhance your rural coverage or let us say class B or class C towns or is that something that you are working on?



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- Anil Rai Gupta:** Yes the focus is to get into the rural sectors class B and class C towns, but I do not see that we would need to enhance the product range, for that basically the idea is to take these products into these areas.
- Harshit Kapadia:** But would you be cross selling those products that is let us say if X product is available in Havells brand only, which was not available let see in Reo brand, which is at lower price of standard brand you will be doing that to make sure that you cater to those markets?
- Anil Rai Gupta:** See it is not a brand oriented strategy, it is a more of reach oriented strategy so a certain product which fits into Reo brand would go into the Reo but if in the rural channel a Havells fan goes in Havells product range, even now today we have not launched Lighting in terms of Reo brand, but it is going in Havells brand into the rural channels, so it is more product oriented than channel oriented.
- Harshit Kapadia:** Okay and my next question is on the Switchgear segment, we already had a tie-up with Hyundai for exporting magnetic contractors, so have we seen a good jump in that numbers in Q3, that is also one of the reason why we have seen high growth in switch gear segment?
- Anil Rai Gupta:** No, it has not yet started. I think that will be somewhere may be first quarter of next year. That is not contributing a significant amount.
- Moderator:** Thank you. The next question is from Nikesh Shah from Motilal Oswal Asset Management. Please go ahead.
- Nikesh Shah:** Thanks for the opportunity. Just wanted to know two things, how is cost structure kind of shaping up as far as next year AC season is concerned because I think somewhere in the working capital slide you did not mention that there has been some prepayment which has happened so would you get benefit of that and scale put together for the next year AC season as such?
- Anil Rai Gupta:** I think the prepayment was largely led by the foreign currency movement, so there is not a very significant sort of upside from there. And I think hopefully, the cost will remain stable if the dollar remains stable. And now that the currency is now sort of going off and the commodity cost price for ECD, so hopefully, the price will remain. The costs will pretty much stabilize in the AC industry, which this year has been fairly volatile.
- Nikesh Shah:** Yes. But last year, you would still see some improvement given the fact that assuming currency remains at the same level.
- Anil Rai Gupta:** We are analyzing the others. I think the custom duty has been increased so the last thing as would increase only in the second half so I think lot of factors will play and I think when we will have to really see or global factor because this is almost like global product.
- Nikesh Shah:** Thank you so much and best of luck.



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- Moderator:** Thank you. The next question is from the line of Srinidhi Karlekar from HSBC. Please go ahead.
- Srinidhi Karlekar:** Thanks for the followup. Sir in Lighting segment you said volume growth is higher than the 18% you reported in terms of revenue, would it be possible to broadly say how much is the volume growth higher and secondly Sir by when do you really expect that value growth should eventually move closer to the volume growth and eventually like grow faster than the volume growth?
- Anil Rai Gupta:** Yes, volume growth in lighting has been significantly higher should be anywhere between 25% to 30% number.
- Srinidhi Karlekar:** Okay by when do you really expect that the value growth should start inching closer to the volume growth, like I mean when can we expect the deflation in LED kind of start a thing of past?
- Anil Rai Gupta:** It is stabilizing in the next few quarters, I think it should be, volume growth and value growth should not be there, but that need not mean that the volume growth will be 30% and value of 50%, so I think do not try to extrapolate.
- Srinidhi Karlekar:** Just wanted to understand the volume and inflation impact?
- Anil Rai Gupta:** Just to clarify the 30% when we say only for the consumer Havells business because this is where normally the numbers come in, which is almost 50% on the business, on the B2B side actually these numbers do not get impacted much so it is already sort of 30% always 50% of the business.
- Srinidhi Karlekar:** I understand. And sir, last one, if I may. So we have seen in this last few examples of household electrification. If you go by government, there are almost 2.5 Crores of households which are newly electrified. Have you really seen this kind as a consumer or the demand from these households will eventually be material from a Havells' point of view and kind of reflecting demand from these household starts?
- Anil Rai Gupta:** Anybody building a home or refurbishing is a potential customer for Havells. And I think it is obligated on us to reach these customers where they are, rather than expect them to come to us. And that is why the entire focus is on the semi-urban and rural, which we have sort of initiated and we continue to sort of double down on the same. So anybody building a home or refurbishing, as I said, is a potential customer.
- Moderator:** Thank you. Due to time constraints, it will be able to take one last question. Last question is from Vinod Bansal from Franklin Templeton. Please go ahead.
- Vinod Bansal:** I am just following up on Lloyd, QoQ from second quarter to third quarter is almost Rs.100 Crores jump in sales, I understand you said there is festive season, therefore TV sales had picked



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up, outside that there is still be some growth because TV is a small part of business right now, is it to say that the channel has picked up more stock or it is purely pricing in little almost 0 volume growth on the ACs?

Anil Rai Gupta: Well, I think AC value has changed a lot. But again, if you talk about the price because the tables have changed. The cost have gone up, the custom duty as well as the currency. So there is even some more value growth. I think there may be slight volume growth but nothing to really speak about. So I think, yes, there has been some growth in the AC, but may be good to argue that this is largely value-driven than volume. I mean, we continue to be in a challenging time for AC and the industry as a whole.

Rajiv Goel: But just to finish off from this, the channel inventory would not have increased end of December as compared to end of September.

Vinod Bansal: Which is why I was trying to understand better, let me first clarify there is no volume decline at least from 2Q to 3Q in terms of number of AC unit is sold in 2Q, what is the unit you sold in 3Q?

Anil Rai Gupta: No.

Vinod Bansal: Okay if the channel had a lot of inventory built up by the end of second quarter because of the weaker season earlier in the year, there was a little season for them to replace the inventory, I am just wondering there should have been decline in your volume sales if channel had to clear out the inventory so I am just trying to understand that part a bit why would channel replace it so soon when they are looking at a weak season?

Anil Rai Gupta: We all are not in the same season also, because in certain cases in December, pickup from southern markets start increasing because they have to build up certain inventory for the month of January and February, the upcoming season after Pongal and then February and new channels are being added, so it is a combination of many things.

Vinod Bansal: And just one last question, how would you characterize the inventory in the system, yours plus channels, end of December versus say end of September and end of June rather that will be better because that was really bad part of the year?

Anil Rai Gupta: In ACs?

Vinod Bansal: Yes, in ACs?

Anil Rai Gupta: So our inventory would be higher because we have built up for the season and channel inventory would be lower because at the end of June, they must have high inventory in the channels at that point of time.

Vinod Bansal: But still nowhere closer to what they would want to be at this part of the time of the year?



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Anil Rai Gupta: Right.

Vinod Bansal: Thanks a lot.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: On behalf of IDFC, we would like to thank you for giving us an opportunity to host the call. Thank you very much for taking time out.

Anil Rai Gupta: Thank you.

Moderator: Thank you very much. On behalf of IDFC Securities Limited, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.